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The Purchase of Alaska: 1867

Though the Senate ratified the treaty for the purchase of Russian America with only two dissenting votes, the American people were taken by surprise, and were not uniformly happy about the acquisition of Seward's Icebox for $7.5 million. Two editorial views are given here, with the Times, *in its infancy, already manifesting the judicious quality that has made it our leading newspaper.*

The New National Ice House

It would seem that the Secretary of State and the United States Senate might have consulted the people of the country in the usual way before enlarging the national domain by an arctic territory and the population by some scores of thousands of Esquimaux and nondescripts. It is vain to compare the Russian treaty with the Louisiana purchase. A glance at the map settles the essential difference between the two. Russian America is not contiguous to our territory. Under the auspices of Mr. Seward the United States are about to enter upon a colonial system. At a time when we are heavily loaded with debt we are to pay more than seven millions of dollars in gold for a remote and barbarous region, which, under ordinary human conditions, will never be largely populated except by savages, and for the annual government of which the expenses will be enormous.

In the present situation of the country, with an unbroken line upon both oceans and across the continent, territorial expansion is wholly undesirable. It is a source of weakness and not of strength. There may be immense advantages in the acquisition of this Russian desert; but they are not suspected by the country, and they are thus far carefully concealed by the Government.

Harper's Weekly XI, 539 (April 27, 1867), 259.

The Russian Treaty

The price was a mere bagatelle compared with the magnitude and importance of the acquisition. Half a continent is cheap at that price, even if its climate is not as soft as that of Florida or its soil as fertile as that of Wisconsin. In international affairs there is no policy so foolish and short-sighted as that of being "pennywise and pound foolish."

The New York Times, April 10, 1867.

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(continued, p. 80)

WILLIAM T. BRADY

The Management of Innovation

Achieving creativity within the organization, to serve the needs of the firm and of society

Management of change is perhaps the most critical and pervasive task facing our world today. The shape of the world's population, the shape of our economies, of the social structure of our many societies, of politics and government, of education and of religion—all are in a state of flux of more than considerable pace and magnitude. And what new forms emerge will be, at least in part, shaped by our skills and knowledge of the process of innovation and our skill in managing change.

Just as energy is the basis of life itself, and ideas the source of innovation, so is innovation the vital spark of all man-made change, improvement, and progress. If we believe our capacities are yet unfilled, that our business is still unfinished, we must then accept that our future, and that of mankind itself, depends first, last and always on innovation—on rearranging the known to create something new.

The task is both awesome and challenging: awesome in the sense that its scope is so wide and varied and the responsibility so great; challenging in the sense that a huge potential is yet undeveloped. We must accept that challenge with vigor, confidently.

The Problem of Change

The problem is that most people seek a pattern of order and constancy in life—not change. They are not receptive to rearrangements, and when these are suggested they are disturbed, upset, and sometimes even hostile. Must we accept meekly that nothing can be done, then? Must we surrender to our own weakness? I don't think so. Innovation is the basic function of management, whether of industry,

politics, science, or the arts, and management must coax and coddle it into being.

It follows that, in an organization, the manager can never be the sole source of innovation, no matter how great his genius. How, then, can he draw from his colleagues the wealth of their creative thinking, except by stimulating the spirit of innovation among them?

We know painfully little about the process of innovation. We occasionally mine and refine previous innovation, but we often bungle the job of creating new sources, or even conserving those available to us. The answers seem to have escaped even the greatest of our enterprises.

Consider this fact: of the 100 largest U. S. companies in 1900, only 36 were among the 100 largest in 1948. Industrial leadership is easily lost. Crowns are never tacked on securely. The majority of companies included among the top 100 today have reached their position within the last two decades. They are companies which have started new industries or transformed old ones to meet consumer preferences —some of which they helped influence or create. They have developed and grown to meet changing conditions. Somehow they have overcome the barriers to innovation.

Too Little Progress

I do not mean to imply that only a few enterprises are really innovating. From what I see and read, many are. But no one who can hear the clock ticking away on America's precious lead-time, who feels the urgency of human need, can be satisfied with our degree of progress.

I do not mean to suggest, either, that few people are innovating. There is apparently no shortage of ideas, big and little, in all our organizations. But no one who has seen the way big ideas shrink into old familiar forms as they pass through established channels can be satisfied that our organizations are innovating as much as they could.

Not only is the search for innovation a significant one today, it is also urgent. What time there is need not be spent in identifying and analyzing innovation or creative thinking. We know it when we see it. However, we do have to identify those things which stifle it, and root them out. Let me try, then, to put my finger on a few of the inhibitors to genuine creative thinking.

INHIBITING FACTORS

First, in our society there seems to be a basic cultural distaste for innovation. Years ago, we admired and rewarded innovation and creativity. We were continuously in search of new frontiers. The innovator was a hero, not a nuisance. Today, however, in sharp contrast to the past, innovation goes frequently unrewarded. We appear to have developed a critical disapproval, a kind of snobbishness, that looks down on anything new. We are fearful—and so resent those who upset applecarts. Security is the slogan of our society.

Cultural Obstacles

Reacting against innovation, we lionize the sensible man, the man of facts, the practical realistic man, the man who "gets things done." Innovation is left to a bunch of ivory-towered research and development units. I have sometimes heard managers refer

to their research activities as if they were an extravagance. "Yes, those are good people as long as we can afford them," they say. No: my point is that the innovators will be our salvation.

Perhaps our society has over-structured its systems and locked its people in. Perhaps we have insisted too much on getting everything regimented. In our efforts to be efficient, we have created systems which wear out but which we are loath to change or drop completely. All this is characteristic of a society in retreat. These are dangerous and demoralizing attitudes for a nation on the new frontier.

Self-Made Obstacles

Further, any company, operating within a climate at best only lukewarm about innovation, produces some obstacles of its own. These are some of the organizational factors which inhibit innovation:

- over-centralization of power and control
- lack of cohesion
- the building of little empires
- the spreading of fear and anxiety
- limited loyalties
- poor communications

Over-Centralization. There is the tendency in too many organizations to hold power and decision at the top. It is based on the mistaken notion that the only competent, intelligent, thinking individuals are members of top management. These people monopolize the power of decision. They coordinate, they direct, they do what little innovating they have time for—they work hard. In fact, their work becomes so consuming that they have little time for anything but the day-to-day tasks. The man whose eyes are focused only on today is not planning for the future. The long-term perspective is missing or woefully inadequate.

With this clustering of power comes the building of empires. Little cliques of "yes men" spring up. Innovation takes only the direction the leaders want it to take. And in the struggles for prerogatives and status, the creative thoughts of people all along the line are stifled.

Lack of Cohesion. More particularly, and unhappily, often too, the objectives of the company—that is, its purposes — are subordinated to the aims and goals of its most aggressive and colorful personalities. The real business of the company, as a whole, is either poorly defined or forgotten. Each division or functional unit develops its own narrow aim and perspective. Decisions, unfortunately, are made in terms of parochial interests.

Fear and Anxiety. Moreover, in such an unhealthy environment, fear and anxiety all too frequently foul the atmosphere. Caught in the pull-and-tug of the top leaders, many people are never certain where they stand. In such a climate it is difficult for them to identify with the larger organization or to feel any sense of participation. Rather, they must, if they are to have any measure of security at all, find it within one of these cliques. And if, like most people, they wish for advancement and bigger rewards, they soon realize they must play along with its ritual. Oftentimes the advice given to newcomers in a department is to "find out what the boss wants and likes" and do it!

Poor Communications. In such a sterile system, lines of communication are a one-way street. Information flows from the top and usually never reaches the bottom. Even that information is oftentimes screened by the top and only what they think is fitting gets through.

Individual Obstacles

A third barrier to innovation centers in the individual himself. We generally live far below our creative limits. Most people possess creative power they never use. Too many people in business are bored stiff. They are apt to characterize all their work by the amount of routine it includes—and all our jobs include a good bit of it. Going through the motion, shuffling papers, their work day takes on the character of deadening monotony.

It is almost as if men were being paid by the pound for their work. Their effort is measured in terms of volume of work, none of which may be really productive or lasting. And far too often none of the work is truly innovative.

Too often when the individual in business has gotten all wrapped up in himself, he loses sight of greater goals and is content just to "coast by." There are those who resist change because they are unwilling to risk that amount of social status they've achieved where they are. They have little ambition and jealously guard their own job against any change whatsoever.

Under these patterns in many of our large organizations there is a tendency to develop organization men, men who are concerned primarily with following a pattern which others lay down. Highly sensitive to what others think of them, anxious to please, dependent, their own individuality is submerged. They are afraid to take responsibility for their own ideas. They hew too closely to the line, and until they find out what the line is, don't hew at all.

While some measure of conformity is essential in any large enterprise, I for one believe the balance between individuality and conformity has swung too far away from individuality. Creative thinking has suffered or disappeared altogether, and we are all poorer for its loss.

ENCOURAGING INNOVATION

The barriers, therefore, to innovation and creativity lie in three areas:

- within our society
- within the organization itself
- within the individual

If we are to liberate our creative forces, we must eliminate these inhibitors, substituting a climate that facilitates innovation and growth. Let us look at what can be done, first for the individual.

For the Individual

For one thing, we can provide an atmosphere in which the individual's sensitivity can flourish rather than wither away. Creativity or innovation comes from *awareness of a need or a problem.* The problem or need may exist within the individual himself or it may be present in the organization or in the public it serves. To solve it requires an openness of mind—a capacity for being receptive to new ideas.

We must also enlarge a man's knowledge about what's going on around

him and encourage and assist him to learn more about his own field.

We can give him the opportunity to develop and improve the techniques and skills of his work. He should get the basic fundamentals of his job. For while the novice may generate insight, he usually is in no position to use it to his or his organization's advantage. He does not possess skills and techniques to follow through on ideas.

This is important. To be a good idea it must be carried through to its ultimate conclusions. Otherwise it is a passing fancy—a wish, a dream. It must be communicated; it must be implemented; it must be placed into effect. And here's the rub. Some can come up with great ideas, but they cannot implement. They are "idea men" and either cannot or will not carry their ideas through. However, we need these people. It's pretty hard to bench a .400 hitter who can't field. We must develop, then, their ability to implement, or put others alongside them who have abilities in these fields. In short, create teams capable of supplementing thought with action.

We must also provide enough time for the innovator to create. He needs time for preparation, time for the incubation of ideas, time for evaluation and redefinition and time for complete double checking.

We must give the innovator a forum for his ideas. He must be part of a "community of creativity." Such a community of interaction stimulates; it serves as a catalyst to others. And in this forum there must be free exchange of ideas; constructive criticism and disagreement without penalty.

Further, we must give the innovator a sense of belonging to management. For only if he participates in the formation of goals and only if he is part of the broad creative effort of the entire organization can his contributions be real. It should not be forgotten that people support what they help create.

We must recognize the dignity of every person at every level, in every department, every type of work. As I have pointed out, every man has, within him, the potential for innovation, no matter how little formal education he may have, no matter how humble his background. We must use every resource of every man, for his sake and for that of society. We must be careful that we do not put people in strait jackets—that we do not try to make them over in our own image and likeness. For when we try, the individual becomes only the caricature of himself, a pathetic "me-too-er."

In the keen and sensitive words of Thoreau,

> If a man does not keep pace with his companions, perhaps it is because he hears a different drummer. Let him step to the music which he hears, however measured or far away.

Now, the world's work must be done. Yet we must strive to permit differences and indeed to preserve them—well within the framework of constructive policy and direction. We can take no other course.

This is not a one-way street. The individual must give something in return. I refer to responsibility and a sense of dedication. Responsibility is primarily personal. It implies a sense of obligation for benefits received and a willingness to justify them by his own best efforts. Responsibility cannot be imposed. Rather, it must come from within the individual.

And most importantly, every individual must find his own sense of purpose, his area of dedication. He must develop a strong sense of what needs to be done, a constructive discontent. He must be concerned by what does exist and excited about what could exist. Creativity comes only to those who are intensely committed — from men with a burning desire that every tomorrow be better than today.

These are the conditions which tend to stimulate the natural growth of creativity in the individual: an environment of freedom and participation on the one hand, and the prepared, responsible individual on the other.

For the Organization

We must distinguish between what we can (or must) do for individuals, and what I would call "the management of innovation." This, in effect, translates a number of the principles concerning the treatment of individuals into organizational terms.

Role of the Supervisor. First there is the relationship of supervisor to subordinate, of associate to associate. It is probably quite true that a person's activity is geared in large measure to what his boss wants or expects him to do. The manager sets the stage, creates the role. And while one's associates are also important in setting expectations, in the end it is the boss who has the greatest influence.

Therefore, what the supervisor does or does not do in fostering innovation is crucial. He can crush it, stifle it, condemn it, or he can cultivate and encourage it. But all too often, he resists any creative effort by a subordinate because for him change is disturbing. It may require more work on his part. Or his subordinate may be viewed as a threat to him.

The answer is that management must reward the supervisor who encourages innovation in himself, in his line and staff. The individual who innovates must be rewarded. So also, greater recognition must be given the supervisor under whom it takes place. Both are necessary.

In my company, for example, we are well along with just such a program. I receive periodic reports on all innovations. We investigate, and the superior of the person who made the innovation is rewarded. Our incentive program is directly geared in. A very important part of a manager's list of responsibilities is how well he fosters innovation. While this may not be the full and complete answer, results so far indicate that we are moving in the right direction.

Corporate Planning. Coupled with this is a strong program in long-range corporate planning. This involves establishing long-range objectives, the continued examination of what lines of business we should be in, intensive studies of our emerging economy and the formulation of plans well into the future. And while I have a top corporate staff on this, and devote a great deal of my time personally to it, yet the real responsibility for action rests with the operating divisions, with the line.

Open Communications. Further, our system of communication must be open. And when I say "open" I don't mean "loose." Communications have to be organized and properly channeled. But having done this, having

taken care of the formal requirements, it is greatly desirable to get people in close touch with one another. The creative act thrives in an environment of mutual stimulation, feedback, and constructive criticism, in a community of creativity. Defensiveness and critical attack restrict and inhibit. There is no place for either in an organization which is growing. Rather the order of the day must be constructive and cooperative.

Organizationally we must provide for a system of sequential controls which will make certain that ideas are brought forward, evaluated, and carried through.

Promoting the Talented. And lastly, I would set this goal: "Keep the path open to talent." Key positions within an organization must not all be filled with individuals who have gradually risen by mere seniority, who plow the same worn-out acreage, year after year. If this happens no fresh talent is brought to light and much is plowed under. There must be sufficient open positions filled with people on the move, to provide the necessary on-the-job training spots. For instance, an assistant department head should never be chosen who does not have the capacity to move into the top job. We must exert the strongest effort to bring individuals of ability to the fore, men possessing energy, clarity of thinking and strong will. We need people to carry the mail—and we need people to be looking for new routes!

But talent does not always stand up for the world to see. It is frequently a shy thing in itself. It must be developed and groomed. Therefore it is imperative that we initiate long-range programs and plans for development, that we employ accurate methods for evaluating individuals and that these programs and plans be pursued vigorously and continuously.

UNANSWERED QUESTIONS

This has been a quick excursion through a vastly complicated area, one full of gaps, unexplored subjects, unanswered questions on which many businessmen and scholars are actually working. We need a sharing of knowledge on such questions as the nature of creativity in the individual, the conditions which lead to its development —the environment of creativity, the stages of the creative process and how this can be managed.

Further, we must learn the way to develop more know-how and insight into the task of blending in the new without shaking established foundations. This is a very real and significant problem. For innovation means more than developing something new. It means dropping the old, the useless. How do we determine what should be dropped? What criteria do we use? These are difficult questions. We need to know the answers.

We need to learn how to fuse creative talent to an organization, mobilize it in a given direction—in a word, to achieve creativity within an organization which will serve organizational and social needs. These are all matters of continuing inquiry, for growing and continuing cooperation between our educational institutions and industry.

Responsibility

In this article I have drawn a more or less artificial distinction between

the responsibility of the organization to the individual, and the individual's own responsibility to his company and to himself. I could argue, quite convincingly I think, that in the final analysis all responsibility is personal—that any organization is built upon these many individual responsibilities—that no matter how they may be allocated, shared, blended, or merged, they rest on men, and not on something as abstract as an organization.

It is to those men who earnestly assume these responsibilities that we may confidently entrust the future of the world's people and their problems. It is top management which must assume responsibility for providing these people with opportunity, stimulation, climate, incentive, and recognition. That done, we can be sure the very highest priority will be assigned to the endless pursuit of innovation, and that it will lead the way to a better life.

The Future of Flight: 1894

At the time he ventured on this wildly inaccurate prophecy, C. E. Duryea was already the maker of an automobile which has one of the better claims to being America's First Car, and was also experimenting with airplane construction. He was apparently a better engineer than a seer. In the following excerpt, Duryea envisions the flying machine of the future as a "large kite-like affair" with a speed of 15 to 20 miles an hour, propelled by pedals, perhaps assisted by a gasoline motor; the principal problem, as with the bicycle, will be to keep one's balance.

Pleasure seekers would find it the most agreeable method of travel. Its high speed, its universal application, its freedom from the common causes of accident, such as snags, washouts, broken rails, burnt bridges and collision, and its cleanliness would combine to make it a popular means of transit. Fifteen years marks the history of the bicycle as it grew from an athlete's means of amusement to the busy man's vehicle. Half that time has seen the electric street car displace the horse. Is it unreasonable to think that before many years the flying machine will have placed itself by their side as a means of transit?

C. E. Duryea, in an article in *Cassier's Magazine,* quoted in the *Review of Reviews* X, 4 (October 1894), 434.

WILLIAM E. HENRY

Conflict, Age and the Executive

The cultivation of an increased complexity of mind benefits both the individual and the organization.

The resolution of conflict and the problems attendant upon the presence of alternative routes of action is one of the central tasks of the executive. He may reasonably hope that these conflicts will not be overburdening, but it is unrealistic to hope that they will disappear. One could imagine, however, that even if the problems will not disappear, the individual executive's viewpoint towards conflict and his methods of dealing with it might change. Such alterations might be expected to occur with further experience in business. It is also possible that such altered viewpoints are a function of age, and of other values toward life in general which may differ with age itself.

Living with conflict is, in one sense, a very simple matter. It is simple in that, short of an implemented desire to end one's life, the very fact of living involves conflict. I doubt if anyone ever lived without conflict, of one degree of magnitude or another. This is probably more acutely true of those whose lives are intimately bound to substantial numbers of other people — with intimate family and friends or with business associates, and with the complex demands of organizational life.

It is not infrequently proposed that life would be easier and without problems in some simple society, of ideal climate, where the basic necessities of life are to be found either on trees or under them. Conceivably this is true, though the locations on the map of the world which meet these idyllic conditions are growing fewer and fewer. Even the experience of many men of business who seek some semblance of this state during vacations seems to indicate that such periods of "problem-less" living have a tendency to get on one's nerves and to drive one, earlier than scheduled, to begin

checking the plane schedules back to town.

It is not clear to me whether or not life in a simpler, less busy, less problem-centered world would, in some overall absolute sense, be better for us and easier for us. I am distinctly impressed, however, with the skill and enthusiasm with which men of the business world actively seek out places and occasions fraught with complexities and problems. Having no objections, it would appear, to places of idyllic and beautiful surroundings, they nonetheless visit them well equipped with their own regular business associates, with a sufficiently complex agenda to make any surcease from active problem solution an impossibility and any attempt to submerge oneself in nature, heresy.

RESOLUTION OF PROBLEMS

None of us lives static conflict-free lives. While we try to keep from living constantly on the run, we certainly do live on the move, continually perceiving, facing and resolving (satisfactorily, we hope) small and large problems. The only desirable change in this life of conflict meeting is a development *in our abilities to deal with life's inevitable problems in more satisfactory ways.* By "satisfactory ways" I have in mind several specific goals beyond the mere immediate resolution of a problem or the skillful shuffling of it into someone else's in-basket, from which one hopes it will never return. A technique for dealing with problems must have several characteristics in order to be satisfactory.

- The solution proposed must be reasonably realistic. That is, in terms of *organizational life*, it must be consistent with general policy and in line with the goals set by the organization.[1] In terms of *personal life*, it must also be consistent with the direction in which one wants his own personal life to move. The personal side is in many ways the more important, having its reflections upon problem-solving in the organizational context. By this I mean that the resolution of any specific problem should serve also to document, to reflect, and possibly to aid in the development of the individual's own sense of identity. It is this sense of personal identity that gives meaning and direction to our lives, and, with the exception of certain minor problems solvable on purely factual grounds, should serve as a guideline to all the actions we take.

- Our techniques should be sufficient to enable us to approach problems with a minimum of that crippling anxiety which can impair our judgment and destroy the sense of accomplishment so commonly a part of adequate problem-solving.

- We should be able to choose resolutions to problems in such a manner as to emphasize that portion of our sense of identity which stems from our own inner resources as opposed to that portion which realistically judges the pressures and preferences of the outside world. This is, of course, a question of balance, since, as I have already indicated, a solution must also be realistic and consistent, in the business case, with some element of company policy. What I wish to call attention to here is the fact that our own sense of identity can readily come to be so highly similar to the goals of the or-

ganization as to submerge our own individuality. While the play which can be given to individuality varies considerably from company to company, the extent to which it is sacrificed to past or present company policy can rob that company of the benefit of innovation and fresh consideration of policy, and it can rob the individual of that sense of competence and contribution so essential to his feelings of control over his own destiny.

Individuals vary considerably in the extent to which their lives are handicapped by uneconomical modes of problem-solving and in terms of what areas of life experiences are for them problematic. In the final analysis it is probably an individual challenge to resolve problems with a minimum of maladaptive anxiety and to develop, through experiences of problem-solving, that sense of personal identity which makes all probable future events seem more manageable.

AGE GROUP RESEARCH

However, despite our unique features, we all share many common experiences and utilize a limited range of techniques for coping with them. Research on business executives, their personalities and ways of relating themselves to organizational life, suggests that there are some common modalities which, while they may apply less to one individual than to another, do give us a picture of how businessmen choose to resolve the problems which confront them, and what areas of life they perceive as problematic. To bring to the fore some of these modalities, I shall describe a research project on a group of executives in the age range of 27 to 57.[2]

The study concerned itself with three groups of men, in companies of. moderate to large size, whose mean age was 30, 40, and 50 respectively. A total of 45 men were studied by means of the Thematic Apperception Test. This instrument was initially designed for the study of personality and consists of a series of pictures from which the individual is asked to make up stories. The particular usefulness of these imagined and invented stories lies in the fact that the pictures—of a wide range of subjects and all somewhat ambiguous and unclear—may each be seen as presenting a different problem, the solution to which the individual must first propose and then structure into some meaningful plot. Since the plot called for must have a beginning, a subsequent development, and a resolution, we gain a view of the quality and number of ideas the story-teller has, of what kind of actions he thinks relevant to the various problems presented, and what kind of outcome he thinks these actions will produce.[3]

Personality Changes

We were interested in part in how personality changed from 30 to 50 and, more specifically, in three areas:

- How these men perceived and defined the outer world of reality about them—what they conceived of as constituting the real and important personal issues.

- How these men perceived and defined their own inner selves; what they saw as their own desires and resources.

- What they saw as the appropriate ways of interrelating their own de-

sires and resources with the demands of the outer world, to the end of adequate problem resolution.

There appear to us to be considerable differences in the personal organization of these men of different ages which suggest different problems and altered ways of dealing with them.

Thirty-Year-Olds

For our thirty-year-olds, life seems amazingly simple. They agree with each other to a remarkable extent in seeing the world around them as demanding accomplishment and achievement. They are convinced that assertively following the leads provided them by that world will result in success. This younger group is thus oriented primarily to the organization, to what they understand to be the expectations of others. These are probably some of the Other Directed men (in David Riesman's sense), who respond directly to the pressures characteristic of their immediate social environment and whose sense of identity is highly similar to the formal goals of business organizations and of middle class life in general. Their interest in their own inner feelings—their emotions, personal desires and wishes —is negligible. They consult the expectations, the policy and precedent, not themselves. Similarly they have almost no expressed conflict over possible alternative routes of action. They do not debate with themselves possible choices, they appear to know the choice they wish to make. Their techniques of accomplishing their goals are comparably direct and straightforward. The thirty-year-old's nose is to the grindstone, and he thinks it right and proper that it should be.

These men have solved the issue of identity by adopting one, just as one can temporarily attain an air of festivity by putting on a Hallowe'en mask for a costume ball, or an air of carefreeness by wearing Bermuda shorts.

The issue of concern here is not the high energy of these men, which is admirable; nor is it the willingness to believe in the goals of organization, which for the company at that point greatly simplifies problems of selection and training. The concern *is*, however, how fixed and how unalterable is this identity; particularly, what is the extent to which the firm identification with single-minded achievement and with the company goals has closed their awareness of other ideas, blocked their sensitivity to different ways of doing things, damped their restlessness, and killed their awareness of their own uncertainty.

Allen Wheelis, in his excellent book *The Quest for Identity*, has remarked:

> No one is primarily interested in abstractions; one *becomes* interested in the effort to achieve mastery of the unique and the immediate. The life that impacts on sense and feeling threatens at times to overcome us with complexity and conflict. At such times we have to take distance. [Then] we harness personal problems with *generalities*.[4]

The issue for these thirty-year-old men is whether their identity—so firm and fully packed from the outside—is a mere *generality*, quickly developed to obscure unrest, to quiet fear, and to lend a protective coloration in the business world.

Forty-Year-Olds

Our forty-year-olds, however, see the world as far more complicated. They are by no means as certain that the objectives of the organization are

inevitably correct, and they begin to wonder if wholehearted devotion to achievement and accomplishment in the business world is indeed the one true life. Along with this questioning of the objectives which seem so reasonable to the 30's, the 40's also begin to reexamine their own inner lives and personal desires. This frequently takes the form of wondering if they should not have chosen some other occupation, one they propose as more attuned to human values, to the rewards of interpersonal relations.

This group is in many ways the most complex group, finding itself more critical and questioning. They do not abandon their earlier goals of business venture, they rather find themselves seeing these goals in broader perspective, and seeing themselves also in a larger scene of personal objectives. In this sense, the 40's are in a period of life in which the maximum contribution can be made, both to self and to the organization. The hazard of the degree of simplistic conviction of the 30's is that they will not see beyond the present. The 40's begin to examine that present from a variety of different viewpoints and are hence in a better position to evaluate, as opposed to adopt, that present as well as to imagine the future. The men who, in their 40's, do not enter into the kind of expansiveness and criticality suggested may be those who are unable to change, even with organizational change, and certainly will not be among those for whom innovation is possible. Their lives with their families, as well as with their company, can become increasingly automatic. For many of these men the very automatic and unfeeling quality of their personal lives can drive them harder into work. Unfortunately the logics and methods behind the work tend to be those learned much earlier, and learned on the basis of their former frantic effort to establish an identity consonant with immediate company goals. Hence subsequent enthusiasms for work are not characterized by flexible methods adaptable to changing circumstances, but by the repetition of patterns successful—or at least workable—at an earlier period.

More characteristic of the 40's are the hazards of improper balance in the other direction. As the 40's reexamine their lives, they can discover again that their families are indeed really people. They also can overshoot the mark, possibly confusing their wife with the charming lady down the block, or feeling that they may have to choose between this rediscovery of personal relationships and the goals of business. It is these imbalances that can make the 40's the most conflicted and pre-occupied group, or if the goals of affiliation and the upsurge of inner strengths are held in proper balance, can make them the most functional and challenging of business associates.

Fifty-Year-Olds

For our fifty-year-olds, the concerns over conflict of values continue, yet appear to be more readily resolved. The resolutions, however, tend to be more internal and personal and can be less related to the ongoing objectives of their work. More than is true for either of our younger groups, the 50's become contemplative and philosophic. Their concern with more abstract integrative schemes tends to reduce their direct urge to action, and to remove

them increasingly from that intense involvement with daily affairs so characteristic of the 30's. The problem encountered by the 50's is that of deriving a rationale and a meaning for their previous experiences. Realizing, as they begin to in their 40's, that sheer quantity of direct, organization-determined work can become hollow, they attempt an explanation, both for the past and as a guideline for the future. This rationale may be sound, based on analysis of their previous business life, or it can be a mere nostalgic reconstruction of their successes. In the latter case, their statements tend to have a ring of unreal and inappropriate finality. Prominent among men whose efforts at generalization are hollow are those, well recognized by the younger men in the company, whose views and decisions are repetitious and can always be anticipated.

The Real Problem

The real problem of living with oneself is indeed that of blending the realistic goals of the world of work with those of family and friends so as to achieve that sense of personal identity which marks one off from other people and gives power and direction to one's action. For the 30's the central challenge to this identity is the hazard of becoming so identified with the company as to lose all contact with oneself. For the 40's the hazard is that of unduly rocking the boat in the effort to reestablish forsaken personal relations in the rediscovery of self. In later years the problem focus is that of maintaining sufficient direct contact with outer realities so that general principles evolved about life and work have a substance rather than a hollow nostalgia.[5]

I have said that the 40's were the most preoccupied and in conflict, and also that, under certain circumstances, they can be among the most challenging of business associates. I believe that there is a connection between these two statements. At first look, the connection would appear to read, *the more conflictive and preoccupied, the better the man.* The statement sounds somewhat dubious, conflict and pre-occupation not generally being thought to go with sound work. Its converse doesn't sound much better. It might read, of course, *the more convinced and direct-action-oriented, the lesser the man.*

CONFLICT AND COMPLEXITY

Buried in these two somewhat dubious generalizations, however, is a point that is less dubious. It hinges upon the word "conflict." In psychological thinking, conflict is a dirty word. It presumes that the individual who has more than one notion or way of feeling about a given subject is in conflict. The logic calls attention to the potentially disruptive, personally distressful, disharmonies of affect and thought. The psychologist, as well as the man in the street, has seen these conflictful states in both individual and cultural contexts. Persons raised in one cultural setting who, by accident or intent, find themselves having to adjust to another are often thought to be in conflict. The socially mobile person within our own society is often so described and his mobility from one group to another thought to be indicative of conflict and discontent with his present life circumstances. Our as-

sumption of the fixity of certain personality characteristics also leads us to assume that their absence is a sign of conflict and distress. Thus our presumption of the basic passive dependence of the female leads us to think that the woman who undertakes an executive career is in conflict with herself and that her occupational choice is neurotically based.

It is not my intention to question that conflict and distress can accompany complex mental states; they most certainly can. But it is my intention to question that all complex mental states are inherently bad and conflictful. Following the logic which reads "complexity equals conflict," we have raised to a high plane of value the ideas of the simplex, the non-complex. Even in the field of mental health, we have come to associate normality, adjustment, with the notion of simple, straightforward and uncomplex feelings. As Dr. Fritz Redlich has aptly commented, we appear to think that "mental health is a state of bliss characterized by the absence of illness or injury" to the mind.

The More Complex the Better

Correlatively, we perhaps also think that the sound worker, the competent executive, should be similarly simplex, comparably blissful, in the single-minded pursuit of clear-cut company goals. But I don't believe that this is true—except for that admittedly large group of workers and executives whose central duty is to administer the status quo. I think that my earlier summation of two features of the forty-year-old executives might best be read *"the more complex the mind, the better the man,"* and, I would add, the better in any field of endeavor.

I do have some evidence that this is not merely facile phrase-making. It comes from the study of psychotherapy and I think its relevance to the executive situation will be apparent. Dr. John Shlien (of the University of Chicago) and I became interested in the proposition that one of the most vital results of psychotherapy would be an increase in the tendency to experience more than one affect about a given topic—and further that these affects might well have a tendency to be more unlike each other than merely synonyms.[6] In other words, rather than expecting an increased compromise of affect, an increased simplicity of feeling, with treatment, we proposed an increased complexity.[7] And it is true—further it is more true of prolonged treatment than of short treatment. The measures which we used showed regular increases in the affective complexity of our subjects during therapy. Perhaps even more crucial, this complexity increased rather than plateaued in the six-month period after therapy had stopped.

The Learning Experience

The therapy may be equated with *new experience*, bringing to the individual unexpected and unrehearsed viewpoints. If this is a reasonable equation, it strongly suggests that subjecting the mind to new influences produces an increased complexity of thought and feeling. And, further, since this state increased without additional therapy, it suggests that complex mental states can feed and grow upon their own substance.

I take this to be some evidence of my summation earlier—the more complex the man, the better the man. And it also suggests that this complexity can be learned through new experience.

THE NURTURE OF IMAGINATION

Some implications of these findings may be drawn and applied to the executive scene. They would appear to have relevance both for the utilization of men in the work situation and for their training—whether during the periods of employment or in their education prior to joining the business world. We can assume that the future of any business rests in part upon the development of its technology and in part upon the imaginations of key individuals. The management of executive personnel, whether in work or in training, should be aimed at the development of the imaginations of these key individuals. These imaginations should be informed, they should be sound in judgment, but above all they should be expansive and able to see any current practice or state of affairs in perspective—a perspective that comes from an absence of excessive investment in the status quo, that has available to it a variety of other ways of looking at the problem. Movement, change, innovation do not grow well on the confidence that father's ways, or even one's own ways, are the best. They do grow on a little dissatisfaction and a lot of imagination.

Objectives of Business Education

This suggests that the objective in the structuring of business education should be not merely that of informing the student about past and current practices, but also that of providing him with a wide range of ideas, concepts, mental images, methods not centrally a part of current business practice. Imagination, the dictionary asserts, involves the power to form mental images of objects not actually present to the senses, and especially to mentally synthesize new ideas out of elements initially perceived quite separately. This is another way of phrasing the increase in complexity of feeling and thought which accompanied psychotherapy in the study reported above. It is also that same quality of mind which characterizes our forty-year-old men, but which seems less characteristic of our 30's.

Ignoring for the moment some possible implications of the personality differences in age suggested, it would seem logical to propose that change, critical evaluation, and realistic innovation would be facilitated by a curriculum—or other experience—which extends and challenges the imagination, which increases the complexity of thought processes, and which provides a widening, rather than an increasingly more specific, band of mental imagery. In more specific terms, this probably means, at the graduate business school level, a curriculum containing far fewer required courses than seems generally to be the case. Nothing convinces a student so quickly that the ultimate required knowledge is already available than a completely required program. If that were not the case, why would our professors, recognized masters of their trade, not have given us *other* required courses? Choice of areas, of specific topics, of instructors, is obviously not relevant, since we are allowed none. Choice, it

might rather be proposed, requires consideration and contemplation of objectives and goals. It takes some mental exercise; registering does not.

Correlative Studies

The development of an increased ability to derive new ideas based on a widened band of experience also suggests an increased percentage, however determined, of courses and other experiences formally outside of business topics. For the executive and administrator, this probably means work in the behavioral sciences. These are the sciences of people, of groups, of motives and desires, of cultures, of the natural habitat and inhabitants of the business scene. And it also means the development of knowledge of methods and procedures, not of *doing* business, but of study and research and hence the development of both critical faculties and further knowledge about the world of business, past, present, and future.

Refreshment and Perspective

In this agenda, I see no immediate differentials to be indicated by the age differences discussed, at least in the desirability of a program so structured, while the men in question are in business or still in school. It may well be more vital for the 30's, whose tendencies to simplify and focus are so marked. But it is equally relevant for the 40's and 50's whose urges toward reconsideration and generalization require substance on which to feed —substance which can be provided by widened experience and a broadened range of concepts and methods. The younger men, during their late 20's and early 30's, are more apt to be in school. The men in their 40's and 50's, of course, are more apt to be members of business organizations. In their case, the burden falls more on the organization itself in terms of its ability and willingness to consider further education, beyond immediate refresher training in the tools of the trade, an appropriate part of the executive career. It requires an attitude on the part of business that does not define education after first employment as a kind of vacation. It would even be highly desirable that business consider the reading of a book, in the office during the working day, as a relevant part of executive behavior and not as laziness. The books that decorate the wall should also decorate the mind.

The refresher education that should recur for the executive, possibly about every five years, should refresh the thought processes, revive the curiosity, stimulate the imagination, question present goals and procedures. Return to business problems could thus itself become a freshening experience, since they can be seen in new perspective, analyzed in new ways.

Personality Change

I have brought out distinctions in age primarily to call attention to the fact that men do change during their business careers and that these changes influence their personal goals and objectives as well as their working methods. A central facet of these changes is the alteration in the ability and willingness to entertain more complex and variegated thoughts and in the degree of specific focus of their goals. These personality changes, however, also suggest some alteration in

the relation of the individual to his work and some possible ways in which his contribution to business may be maximized. In a sense, the 30's are the hard workers who need to have some illusions shattered. As long as the rewards of occupational mobility can sustain them, these are certainly the men whose energy should be put into carrying out programs, to pushing agreed-upon objectives. Their devotion to work also suggests that the organization would profit from promoting them faster and increasing their duties, within the range of generally stable programs. In effect, the assertiveness and focus of youth should be maximized. The hazard is that they will become so work-bound that their minds close.

The 40's spontaneously come to reexamine goals and objectives. Perhaps they can be aided in this process by making such contemplation legitimate within the organization. New programs, examination of proposed innovations, revisions of procedures, consideration of the more personal and human side of business life become more natural for them. Such work in the organization also should be helpful to them and to the company as, inevitably, their rewards from rapid mobility lessen. They need support in their concern with reduced energy, since it worries them. Their energy has basically shifted to new scenes and away from the direct observable accomplishment characteristic of their earlier years and now characteristic of their up-and-coming competitors. Around the age of 50, general systems, broad statements of policy, long-range planning become natural areas of the investment of energy. These men also should perhaps be kept out of the hair of the 30's, since their counsel of breadth and contemplation can only conflict with the direct assertiveness of the younger.

The Elaborated Identity

I should emphasize that these suggestions are at best hypotheses. They are extensions from the data on personality changes and have not been validated in the business situation. Even assuming for the moment that they have merit, individual differences would be considerable. While the trend with age seems firm, signs of the trend in specific individuals need hardly occur at the specific ages indicated (30, 40, 50), but may be advanced in some men and delayed in others. But regardless of the ways in which changes in personal orientation influence work on the job, a constant refocusing of thought processes into more general areas of concepts and of methods of problem analysis seems sound. This can be accomplished, at least to some degree and in some men, both by educational programs and by company attitude that remove the nose from the grindstone of immediacy and point it toward the horizon of broader perspectives. The fear that by such attitudes men in business will lose their practicality seems groundless. A broadened perspective on the business venture is as practical as knowledge of a new machine—and they will get the latter in the normal course of events anyway.

The central result, however, should be an increased complexity of mind, out of which an expanded and broadened sense of personal identity can emerge. The elaborated identity serves

as the base for the resolution of problems of increasing complexity, helps avoid that gnawing terror that accompanies the monotonous repetition of familiar techniques, and equips the individual with that sense of competence which only knowledge of rich and well-organized reserves can give; and it equips the industry with men able to anticipate and to innovate.

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1. This article deals primarily with men who operate within the framework of medium and large organizations. The criteria suggested here, however, probably still apply to individual entrepreneurs in small businesses, but with lesser attention to established organizational policy and more to the realities of production.

2. Louis C. Schaw and William E. Henry, "A Method for the Comparison of Groups: A Study in Thematic Apperception," *Psychological Monographs*, 54 (1956), 207-53.

3. This technique has been used in a number of researches on business men. In particular, see: William E. Henry, "The Business Executive: The Psychodynamics of a Social Role," *American Journal of Sociology*, LIV, 4 (January 1949), 286-91, and W. Lloyd Warner and James C. Abegglen, *Big Business Leaders in America* (New York: Harper & Bros., 1955).

4. Allen Wheelis, *The Quest for Identity* (New York: Norton & Co., 1958), pp. 9-10. Quoted by permission of publisher.

5. Data from other studies of normal populations suggest that these trends continue in the years beyond 50. Beyond this point there appear to be changes not merely in personal orientation but also a reduction in the amount of actual interactions with other people. It is possible that some of the increasing involvement with generalizations and theories that occupies our 50-year-olds is also accompanied by a withdrawal of interest in and interaction with persons and events — meetings, conferences, social chats, memoranda. See especially William E. Henry and Elaine Cumming, "Personality Development in Adulthood and Old Age," *Journal of Projective Techniques*, XXIII, 4 (1959); and Elaine Cumming and William E. Henry, *Growing Old*, (New York: Basic Books, Inc., 1961 [in press]).

6. *Affect* is a term used technically in psychology to denote feeling or emotion, especially when that feeling or emotion determines some individual thought or action.

7. William E. Henry and John M. Shlien, "Affective Complexity and Psychotherapy: Some Comparisons of Time-Limited and Unlimited Treatment," *Journal of Projective Techniques*, XXII (1958), 153-62.

RAY R. EPPERT

Storm Signals of the Sixties

The free enterprise system, faced with foreign competition, has no alternative to success in world-wide economic activity.

It was the naturalist, John Burroughs, who admitted that he was born with a chronic anxiety about the weather. In similar vein, we businessmen have a chronic anxiety about the business weather, the economic climate in which American industry must operate. Except for a few short squalls, we have been basking in an exceptionally favorable climate during the postwar years. Yet the "Soaring Sixties" which we welcomed so confidently over a year ago haven't been able to gain altitude—indeed, some of little faith already are referring to the "Souring Sixties." I share the more widespread conviction that we are presently experiencing another squall which will lift in the coming months. Yet there are at this moment several economic storms brewing which could be the signal for a drastic and unhappy change in the business weather cycle.

Fortunately, business isn't entirely like the weather. We can do something about it as well as talk about it. We have proved conclusively since World War II that we can produce at any necessary or desired level. The question now has become: at what level can we distribute and sell? A production schedule which ties up needed working capital in excess finished goods inventory is doomed to a very short life. Productive capacity without a market is like money to a starving man at sea. With very few exceptions, the emphasis in the United States has shifted from production to distribution. Marketing executives are in the spotlight and on the spot.

It is with no thought of being a crape hanger or a calamity howler that I point to these storm signals on the marketing front. Even in its present doldrums, our economy is at a generally high level, and I don't want to be like the farmer who harvested a bumper crop after successively predicting his own ruin as a result of

freeze, flood, drought and disease. "It turned out pretty good," he confessed, "but don't you know, a crop like that sure takes a lot out of the ground."

I only want to make the distinction that we have the opportunity, but not the assurance, of fair and warmer days ahead. Because we have good seed in the ground, we can't sit back and wait for the harvest. We have work to do.

A Look at the Weather Map

First, there is a very, very cold front generating from eastern Europe in the area of Moscow. Behind it is a violent storm already covering a third of the earth's surface; unless dissipated, it could bring a deep freeze to the whole democratic world. Wherever this front meets with our own trade winds, there is turbulence at all elevations.

Next, concentrated over the European Common Market, the European Free Trade Area, and other strongholds of vigorous individual enterprise are a series of growing counter-fronts. These are "friendly" weather breeders to the extent that they help resist the Moscow storm system, but at the same time they are threatening our markets with extensive precipitation.

Finally, here at home we have developed a long-standing high pressure area with strong political winds. While this system promises showers of prosperity, all too frequently in the past similar movements have turned out to be nothing but hot air masses which parch profits and dry up the seed.

CREATING A CLIMATE

What can we do about this weather? We can and must create our own favorable climate with aggressive marketing programs, at home and abroad.

Through the centuries, many nations have taken their turns in dominating world commerce, each succumbing at last to a stronger competitor. As the leader for the last thirty years, we have this much in common with our predecessors: *we continue to grow, or we die. We keep running, or we get run over.*

A Production Struggle

We have one tremendous advantage over the power nations of the past. They were essentially *trading* nations whose economic growth was limited by the amount of goods they could produce or obtain. The United States alone has come into power as a *producing* nation. We can, in short, produce all we can sell. Our problem is to sell all we can produce. To maintain our world leadership, we must become the first great producing *and* marketing nation. If we don't, there are others who will.

Looming most ominously is the Soviet Union. Nikita Khrushchev made that plain enough when, during a comparative lull in the cold war, he bluntly stated:

> We declare war. We will win over the United States. The threat to the U.S. is not the ICBM but in the field of peaceful production. We are relentless in this and will prove the superiority of our system.

That is not a statement to be taken lightly. While we may be poles apart in ideologies and economic systems, Russia has this in common with us: she controls most of the physical resources required for her economy. That is essentially what made us a producing nation, and it would be foolhardy to question that Russia can do the same

in time, if her system holds together. We can't afford to gamble on her failure; we must stay well out in front.

A Marketing Drive

Hand in hand with the Soviet production drive is a marketing drive. Again, our authority is the terrible-tempered Mr. Khrushchev himself, who has stated: "We value trade least for economic reasons and most for political purposes."

That aim has been clearly demonstrated in recent months in Africa, in Asia, in Cuba, wherever political unrest has offered an opening wedge for the Communist trade offensive. Nor are the Soviet efforts confined to the economically underdeveloped areas. Soviet-refined gasoline is being offered on the European market at cut-rate prices. Owing to poor refinery equipment, the exhaust fumes from their gasoline smell like rotten eggs (a pretty obvious marketing disadvantage) but it is reported that the Soviets are modernizing their equipment and expect to overcome this difficulty in the near future, whereupon they may become serious competitors in the European petroleum market.

With the Soviets, we are not facing independent businesses like ours or those of our allies. With the Soviets, trade does not follow the flag; the flag follows trade. With the Soviets, we are coming to grips with the whole power of their government which, since all profits belong to the state, can price their exports on any basis their political ends require. Then, if they desire, they can offset these actions merely by increasing prices at home. This is an advantage we do not have nor, at the cost, would we want it.

The Decisive Demonstration

In the end, this struggle will be decided in favor of the economic system which demonstrates that it can do the most to improve the living scale of the most people. We confidently believe that we have that system, but we must prove it to the rest of the world. Our only sensible strategy is to improve the economic strength of the non-Soviet world, to bind together the nations of the free world with strong trade links, and to pursue a vigorous policy of maximum international commerce. Marketing must play a leading role in these objectives.

An illustration will make this clear. In 1959, our export sales to West Germany amounted to $14.75 for every West German man, woman and child. The Japanese per capita purchase of our goods was a little over $10. Pakistan could buy only $1.15 per capita from us.

These figures suggest two conclusions which have a hen-and-egg relationship: first, it is to our advantage to build up the purchasing power of underdeveloped nations; second, our strongest Free World competitors are our best customers.

ANOTHER STORM AREA

There is a second series of storm areas on our economic weather map: the nations who are our *friends politically* and our *rivals economically*. They are the nations who are our markets abroad. The inexorable laws of trade make us a market for their products, a market which they have been hitting hard.

Admittedly, there is a certain amount of irony in this latter situation, since

American aid played a prominent part in setting these countries back on their feet after World War II. But long gone are the days when Thomas Paine could write: "Not a place upon earth might be so happy as America. Her situation is remote from all the wrangling world, and she has nothing to do but trade with them." In a world of guided missiles, isolationist policies are completely obsolete.

We must face up to the fact that any nation strong enough to help us militarily must also be strong enough to compete with us economically. The only answer to this competitive dilemma is to expand the world market. What we need is not a bigger piece of the pie, but a bigger pie.

For some time, particularly in recent months, we have been painfully aware that the U.S. is in an adverse position on the international balance of payments. In 1960, the net gold outflow from our country was somewhere in the alarming neighborhood of $3½ to $4 billion, owing in major part to our loans, grants and military expenditures overseas. Clearly, we have two choices: either decrease our expenditures abroad, weakening our political-military position, or increase our trade surplus.

In the latter half of 1960, we were exporting goods at the annual rate of $20 billion, about a 22 percent increase over 1959. If we can increase our export trade by that much more, we could wipe out the balance of payments deficit without reducing current import levels, an entirely practical goal.

Wages and Tariffs

It is frequently alleged that high wage rates have priced us out of world markets, and there are some discouraging statistics available on this score. In the major countries of Western Europe, for example, wages in manufacturing industries range from $1.08 an hour in Sweden to $.57 in The Netherlands, compared to $2.68 in the U. S. In Japan, the average is far lower. Obviously, export products from the United States which have a high labor content pose special problems for us.

Some quarters have been quick to demand governmental tariff action to protect America's position in the world economy. This type of thinking can only be called economic isolationism, as out-dated as the political variety. Tariffs are like a golfer's handicap—an admission that he can't shoot par and a device to give everybody a chance to win. This is a commendable concept for a club tournament, but I've never seen it proposed for the Olympic Games. Instead of confessing competitive weakness, the United States must meet competition by finding ways of expanding its trade overseas. Government action is no substitute for the vitality and initiative of private enterprise. The import-export status of products and industries has never been static, and we should never try to make it so by government regulation.

There will be casualties. There are casualties now, every day, caused by domestic competition, but we don't wring our hands and say "There ought to be a law." This is the way the competitive discipline works to create maximum benefits for customers, all of us included.

Let's not try to solve our problems by tariff action. When we build a fence, we must consider what we are fencing in as well as what we are fencing out.

If we fence out imports, we are going to fence in our own exports, for it is an unpleasant fact that the world no longer depends upon our products as much as it did a few years ago.

THE ANSWER TO COMPETITION

As I have stated, a 20 percent increase over and above any natural increment is a practical goal. There are two major reasons for this optimism.

The European Boom

First, there is the interesting fact that the 1960 export growth was due almost entirely to the European economic boom—the same boom which put them into competition with us on the world market. It has created a familiar pattern of labor shortages, rising prices, and slower deliveries, all of which have encouraged the purchase of U.S. goods and made them more competitive.

Furthermore, it is estimated that as much as 15 percent of our 1960 trade surplus can be attributed to trade liberalization in Western Europe, where many countries have modified or abolished import restrictions against our goods. This trend can be expected to continue *unless we ourselves take retrogressive action.* Finally, the European boom may very well spill over into other countries, creating more foreign buying power for our products. It is particularly notable that Canada and Latin America, traditionally our major foreign customers, have been in a slump which did not enable them to contribute to the 1960 increase in U.S. exports. If their economies can be persuaded to pick up, we would have a running start toward another $4 billion increase in our trade surplus.

American Diversification

The great diversification in American research and development, which can provide products in export demand and create the jobs we must have, is a second reason for believing that we can more than hold our own against foreign competition. In the decade of the Fifties America invested $69 billion in basic and applied research. This has generated a flood of new products. In 1960, the total expenditure for research and development in the United States was approximately $13 billion, projected to $27 billion by 1970. This includes the research effort for the defense program which is knocking on every closed technological door in every branch of science. This research is contributing to the economic defense of the United States as well as to our security program.

Our answer to trade deficits must be to capitalize fully on this tremendous technological effort and capability. We must aggressively export what might be termed Model II products while the importing territories are in a Model I phase. As they move into a Model II position, we must be in Model III.

A Continental Base

U.S. companies not now exporting to Europe or producing there may find the continent increasingly attractive as a production and distribution base. Prime candidates are those products which cannot be manufactured here and sold competitively and profitably in that market. Importing from ourselves also protects our competitive position on those products in the U.S. market against similar foreign exports.

Such transfer of work overseas in order to meet foreign competition both there and here does not mean we are merely transferring American jobs. Such transfers can create more jobs here at home. Let me give you a specific example: Burroughs Corporation, of which I am president.

After the Second World War most of the world had little dollar exchange and United States exports were severely handicapped by licenses and quotas. At that time, Burroughs had only one foreign manufacturing facility, a small plant in England, established before the turn of the century.

In 1949, we created a new plant in Scotland and transferred one major product (the calculator) for world production. Thus we released facilities for production of new products in the United States, and generated additional jobs here. At the same time, by purchasing calculators from our Britain plant for dollars, we created the exchange necessary to ship U.S.-made parts for other products into Britain for finishing and assembling there. This program permitted us to export this amount of products on a sterling basis to most of the soft-currency areas of the world. More plants in Britain, France and Brazil have since been added, and our international business has multiplied rapidly.

Importing Expansion

Between January 1, 1950 and January 1, 1960, our firm created 5,500 additional jobs overseas. *In that same time, for every job added abroad, we created more than three new jobs in our U.S. operations.*

It is unlikely that we could have approached that rate of domestic growth had we confined ourselves to our own shores. That's why we at Burroughs are convinced that investing abroad is also investing at home: why exporting certain production is also importing domestic expansion and jobs for American workers.

THE DOMESTIC WEATHER

Let us now look more closely at the economic weather that is building up here. In spite of the seeming prosperity reflected in the sales charts, narrow profit margins and limited surplus for reinvestment have been and are distinctive features of the American economic system in recent years. Our politics have been so strife-torn in the last thirty years that around profit's head has swirled a storm of controversy. "Profit" has become a dirty word for many misguided, if well-intentioned, people who would somehow contrive to reduce profit from business and yet have something left which is neither socialism nor communism.

The Wage of Enterprise

We can no more take away adequate profit and have free enterprise left than we can take away the people's right to vote and have democracy left. Profit is the wage of enterprise, and these wages have been going down at the same time that the cost-of-living index for business has been going up.

The cruel truth is that our national income has risen by better than 120 percent in the postwar era, but corporate profits have increased by only 23 percent. In 1947, corporate profits were 9.2 percent of our national income; by 1951, profits were down to 7 percent, and in recent years they have fallen to 6 percent or below. This

clearly defined downward trend should be of major concern to statesmen as well as industrialists in this perilous time when our industrial expansion and Gross National Product growth is more necessary than ever before.

One of the big jobs before us is to scrub the dirt off the word "profit." We must re-acquaint the American public with the difference between making a profit and profiteering, remind and convince them that profit does not accumulate in corporate strong-boxes but is paid out continually for the use and improvement of tools. Everyone should understand that the American system of free enterprise is a profit system, and that from these profits and only from them do we get job security, our high standard of living and the initiative of action which has placed the United States in its position of world leadership. *Economic illiteracy is probably the greatest single threat America must face.*

Our Biggest Market

Despite the stress laid on the export market in this discussion, our biggest market, of course, is right here at home, and certainly cannot be neglected.

Census figures show that a baby is being born somewhere in the United States every 7½ seconds: this year about 4 million such new customers will be born. In their lifetimes this one year's crop of babies will buy, among many other things, a billion pairs of shoes, 25 billion pounds of beef, 63 million suits and dresses, 11 million new cars, 91 billion gallons of gasoline, 200 million tons of steel, 50 billion quarts of milk, 6½ million refrigerators, a million new houses, 65 million tons of paper.

To repeat my earlier statement, we will have no difficulty in producing enough goods for this growing population of ours with enough left over to sell the rest of the world all it will buy.

BREAKTHROUGH

Foreign competition, whether friendly or hostile, dwindling profit margins, economic stagnation: all these threats can be met in only one way—by adequate growth on the revenue front. We have arrived at the time when marketing management must establish new pars for the course.

Most observers agree that we are on the verge of a breakthrough into a wholly new level of economic activity, world-wide in scope, intensive in penetration. The future years offer tremendous opportunity, not only for success, but for failure as well. In America, the freedom to fail is one of our greatest freedoms. That freedom permits us to stick out our chin, to go out on a limb, to take a chance. And we get the reward for doing so if we are right. The worst mistake we can make is to fail to exercise this freedom to fail. Inaction is the surest road to failure. The sternest challenge in the history of business lies ahead. We have no alternative to success because the failure of free enterprise would mean the failure of all that America stands for.

If we don't succeed, we are likely to find ourselves in an economic climate like that of a certain western mining town: eleven months of winter, and one month mighty late in the fall.

ELI P. COX

The Decline of Metropolitan Retailing

Some startling changes in retail concentration have gone unnoticed.

A great deal of attention has been given to the increasing importance of the nation's metropolitan areas as centers of population and trade. A vital fact has been overlooked, however. That fact is that during the last thirty years retail trade has not shifted to those areas at anything like the rate at which population has done so. In other words, while the population of the Standard Metropolitan Areas has increased dramatically both in absolute terms and in share of the national total, metropolitan retail sales have made gains in absolute terms, but have not increased their share of the nation's total at all. To be specific, today's metropolitan counties increased their share of the population of the 42 states in which they are located from 53.75 percent in 1929 to 61.55 percent in 1958. The metropolitan share of retail sales in these states, however, remained almost constant during the same period, standing at 68 percent in 1929 and at 67.6 percent in 1958. The result is that per capita retail sales have increased much more rapidly in non-metropolitan than in metropolitan areas.

This finding, which has resulted from a study now being conducted in the Bureau of Business and Economic Research at Michigan State University, will be startling to marketing professionals, both academic and practicing, for it runs counter to generally held assumptions about retail concentration. Since significant changes in the structure of retail distribution in the United States are of importance to many engaged in business—certainly the manufacturer, the wholesaler, and the retailer—as well as to those who study changes in the economy, the purpose of this article is to report a change which has apparently gone unnoticed.

The Bureau of the Census generally defines a Standard Metropolitan Area as being made up of one or more whole

TABLE 1

PERCENTAGES OF STATE POPULATIONS CONCENTRATED IN STANDARD METROPOLITAN AREAS

SMA	1929	1939	1948	1954	1958
Alabama	27.59	29.00	33.67	36.32	36.77
Arizona	46.64	51.49	61.49	67.53	70.34
Arkansas	10.82	11.15	13.17	15.03	16.49
California	83.39	83.96	84.37	85.50	86.27
Colorado	43.35	45.56	52.51	56.13	58.62
Connecticut	66.67	66.76	66.91	66.29	65.74
Delaware	67.45	67.39	68.56	68.84	68.86
Florida	47.27	52.95	56.98	58.25	58.66
Georgia	27.77	30.95	36.29	40.35	42.98
Illinois	69.92	70.50	72.81	74.58	75.71
Indiana	43.96	45.39	47.81	49.40	50.35
Iowa	25.49	26.82	29.10	31.44	32.29
Kansas	20.92	22.70	23.73	29.64	34.77
Kentucky	24.98	24.74	27.95	30.95	33.12
Louisiana	34.29	34.83	38.66	40.76	41.84
Maine	19.64	19.94	20.49	20.28	19.97
Maryland	69.90	71.73	71.54	76.59	77.63
Massachusetts	88.31	86.08	86.10	85.76	85.37
Michigan	67.95	68.80	71.00	72.19	72.83
Minnesota	35.02	41.36	45.47	47.57	49.43
Mississippi	4.14	4.85	6.20	7.36	8.20
Missouri	47.97	48.63	52.62	55.52	56.87
Nebraska	24.77	27.04	30.60	33.96	36.77
New Hampshire	17.51	16.82	17.66	17.69	17.53
New Jersey	84.69	84.21	82.75	80.73	79.29
New Mexico	10.68	12.86	20.02	24.36	26.63
New York	84.34	85.04	85.29	85.42	85.49
North Carolina	19.66	20.41	21.79	23.13	24.09
Ohio	65.70	65.83	68.04	68.92	69.25
Oklahoma	20.19	22.14	28.10	32.78	35.86
Oregon	43.47	41.61	40.83	40.82	40.90
Pennsylvania	74.89	75.23	76.21	76.95	77.44
Rhode Island	90.63	88.70	88.40	87.76	87.45
South Carolina	22.29	25.69	26.43	29.15	31.06
South Dakota	7.28	8.80	10.49	11.91	12.03
Tennessee	33.81	35.61	40.04	42.88	44.65
Texas	36.64	40.32	48.35	53.35	56.21
Utah	48.19	48.74	51.46	53.58	54.87
Virginia	35.62	34.23	42.40	46.79	49.16
Washington	57.36	57.07	58.65	61.37	62.57
West Virginia	25.53	26.19	27.45	28.89	30.13
Wisconsin	39.06	39.75	41.91	44.05	45.53
SMA's of 42 States	53.75	54.83	57.89	60.19	61.55

SOURCE: Developed from United States Census data.

counties which contain at least one central city of at least 50,000 inhabitants. Many of them are made up of single counties, but additional counties may be added if they become essentially metropolitan in character and sufficiently integrated with the central city.

THE BASIC STUDY

The basic study involves a comparison of the populations and retail sales in Standard Metropolitan Areas with these same figures for the states in which SMA's are located. The problem has been complicated by the fact that with each successive Census of Business the number of population centers designated by the Census Bureau as Standard Metropolitan Areas has increased and some existing SMA's have been redefined by the Bureau to include additional counties. Since the number of states in the continental United States and their boundaries remained the same, making a direct comparison has required that the SMA's be stabilized in some way. This has been done by using the SMA's as they were designated for the 1958 Census of Business and reconstituting them statistically for other census years. For instance, Lansing, Michigan was a one-county SMA until 1958, at which time two additional counties were added. For the purposes of this study, then, the three-county definition was used and SMA statistics were computed for prior census years by adding reported figures for the two additional counties.

A brief scrutiny of Tables 1, 2 and 3 will acquaint the reader with the basic results of the study. The tables contain data on the 42 states which in 1958 had one or more population centers designated as Standard Metropolitan Areas for which statistics from the 1958 Census of Business were reported.

SMA Population Shares

Table 1 shows the proportions of each state's population which resided in its Standard Metropolitan Areas during each Census of Business year from 1929 to 1958. While it will be noted that for the nation as a whole the degree of population concentration increased steadily throughout the period, the degree of concentration in some states increased rapidly and in others little or not at all.

Those states in which SMA population shares have increased most are generally those which had low SMA concentrations to begin with. In most cases they are states whose economies were largely oriented toward agriculture until World War II, and most of them are located west of the Mississippi River. In eleven states, Arizona, Arkansas, Georgia, Kansas, Mississippi, Nebraska, New Mexico, Oklahoma, South Dakota, Texas, and Virginia, SMA's increased their population shares by at least one-third from 1939 to 1958. Eight of them lie west of the Mississippi, and all were agriculturally oriented before World War II.

There are also eleven states in which SMA population shares increased by one-twentieth or less during the same period. These are California, Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Oregon, Pennsylvania, and Rhode Island. Nine of these lie east of the Mississippi, and are generally in a rather "mature" state of economic and population growth. California and Oregon are mavericks which defy any

TABLE 2

PERCENTAGES OF STATE RETAIL SALES CONCENTRATED IN STANDARD METROPOLITAN AREAS

SMA	1929	1939	1948	1954	1958
Alabama	46.79	48.34	48.22	47.75	47.65
Arizona	52.83	58.82	67.98	69.52	72.39
Arkansas	18.03	22.75	22.28	22.95	24.48
California	86.06	85.76	85.42	86.45	87.22
Colorado	54.29	57.01	56.70	60.36	61.87
Connecticut	68.48	68.39	67.65	71.91	68.69
Delaware*	75.66	70.98	62.11	67.65	67.46
Florida	68.97	66.16	66.34	62.89	63.20
Georgia	51.21	52.35	52.70	53.93	54.50
Illinois	80.65	79.21	77.48	80.49	79.29
Indiana	55.52	54.58	53.96	54.25	54.94
Iowa	33.91	34.53	34.18	33.48	34.93
Kansas	23.73	28.39	27.57	34.10	36.11
Kentucky	45.92	45.17	44.47	46.38	45.63
Louisiana	51.17	53.21	50.51	52.15	52.31
Maine	29.31	27.89	26.75	26.19	25.89
Maryland	77.38	77.53	75.89	76.56	78.38
Massachusetts	89.00	85.39	86.78	87.38	87.75
Michigan	76.20	74.86	75.02	76.19	75.16
Minnesota	55.74	55.29	51.16	52.14	53.77
Mississippi	8.54	11.32	11.18	12.25	14.27
Missouri	68.31	67.52	65.11	65.16	64.98
Nebraska	31.36	37.94	33.99	35.81	37.97
New Hampshire	21.04	18.42	19.01	18.31	19.05
New Jersey	84.18	83.66	81.53	80.57	79.54
New Mexico	17.50	20.14	25.58	29.75	31.72
New York	87.52	87.02	86.29	85.81	86.15
North Carolina	33.22	33.98	33.11	32.35	33.75
Ohio	73.96	74.12	73.06	72.56	73.18
Oklahoma	31.93	36.25	37.85	41.50	43.69
Oregon	51.28	48.07	44.70	43.23	43.40
Pennsylvania	82.83	80.46	79.65	80.44	80.61
Rhode Island*	90.45	86.87	86.74	83.78	85.53
South Carolina	33.81	34.89	35.19	37.47	38.17
South Dakota	11.62	15.41	14.16	14.64	15.59
Tennessee	59.09	58.93	57.27	56.96	57.73
Texas	51.37	54.96	57.43	59.68	61.42
Utah	65.44	62.78	59.29	62.85	62.35
Virginia	39.94	42.21	52.76	55.64	60.37
Washington	6403	62.84	60.68	63.52	65.17
West Virginia	36.18	35.99	34.93	38.54	38.69
Wisconsin	48.00	49.00	46.06	47.46	48.33
SMA's of 42 States	68.02	67.81	66.08	67.10	67.56

* Data seem internally inconsistent.

SOURCE: Developed from United States Census data.

generalization about the rest of the group.

Shares of Retail Sales

Table 2 shows the SMAs' shares of state retail sales for each of the Census of Business years. Here, too, there is a great deal of variation between states, one which certainly would be expected to accompany the changes in population shares indicated in Table 1. Generally, however, the changes in shares of retail trade have been much smaller than the corresponding changes in population shares. In a few cases (Florida and Missouri, for example) the two changes have actually been in opposite directions, with relative population concentrations increasing and corresponding retail concentrations diminishing.

Retail Concentration

The heart of this analysis is contained in Table 3, in which retail sales per capita in SMA's are compared to those in non-metropolitan areas. The figures in the table may be used as indexes of retail concentration. Table 3 shows that the index for the nation has dropped consistently since 1929, falling from 183 that year to 130 by 1958. This means that SMA per capita retail sales were 83 percent higher in 1929 than those in non-metropolitan areas, and that the difference had dropped to 30 percent by 1958. The pattern of falling indexes was followed to a greater or lesser degree in 38 of the 42 states, the exceptions being Connecticut, Massachusetts, New Jersey, and Virginia.

While there is a high degree of consistency in the direction of change of the retail concentration indexes in the various states, there is a wide spread in their actual magnitudes. For instance, while Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, and Tennessee still had indexes of 150 or more in 1958, Arizona, California, Delaware, Maryland, New York, and Rhode Island had indexes of 110 or less. Although these variations are worthy of further exploration, this article is concerned with the central fact that population movement to metropolitan areas has not been accompanied in recent years by a proportionate increase in retail sales in those areas. In other words, non-metropolitan areas seem to be doing a progressively better job of holding retail sales and preventing their flow to metropolitan centers.

RATIONALE OF CHANGE

This central fact is of real significance, since it indicates that metropolitan areas have been overrated as increasingly important centers of retail trade. A number of marketing men have been asked for their opinions on whether retail sales have been concentrating in SMA's at a faster or slower rate than population. Without exception they felt that the SMA share of retail sales was increasing faster, and were surprised to learn that the reverse has apparently been true for the past thirty years.

Reilly's Law

The reason for surprise is obvious, for long ago it was discovered that there was a tendency for trade to flow from smaller population centers to larger ones. This tendency was drama-

TABLE 3

RELATIVE PER CAPITA RETAIL SALES IN STANDARD METROPOLITAN AREAS
(State non-metropolitan per capita retail sales = 100)

SMA	1929	1939	1948	1954	1958
Alabama	230.80	229.10	183.46	160.23	156.53
Arizona	128.13	134.57	132.95	109.57	110.55
Arkansas	181.29	234.69	189.00	168.38	164.16
California	122.96	115.05	108.53	108.20	108.62
Colorado	155.21	158.45	118.43	119.01	114.53
Connecticut	108.61	107.72	103.43	130.18	114.33
Delaware*	150.00	118.36	75.17	94.65	93.75
Florida	247.94	173.73	148.81	121.46	121.03
Georgia	273.00	245.09	195.61	173.07	158.90
Illinois	179.31	159.43	128.48	140.61	122.84
Indiana	159.13	144.58	127.93	121.46	120.23
Iowa	149.98	143.92	126.53	109.42	112.53
Kansas	117.60	135.01	122.33	122.84	106.02
Kentucky	255.00	250.62	206.45	192.98	169.48
Louisiana	200.82	212.77	161.94	158.40	152.46
Maine	169.65	155.29	141.70	139.48	140.00
Maryland	147.31	136.00	125.21	99.83	104.47
Massachusetts	106.14	94.51	105.97	114.97	122.76
Michigan	151.01	135.03	122.66	123.27	112.89
Minnesota	233.70	175.34	125.61	118.93	118.99
Mississippi	216.20	250.43	190.43	175.72	186.34
Missouri	233.79	219.58	168.03	149.83	140.71
Nebraska	138.75	164.95	116.78	108.49	105.26
New Hampshire	125.53	111.65	109.43	104.28	110.71
New Jersey	96.20	96.01	92.02	98.98	101.55
New Mexico	177.41	170.88	137.31	131.51	127.99
New York	130.22	117.95	108.55	103.22	105.57
North Carolina	203.28	200.71	177.66	158.91	160.54
Ohio	148.27	148.65	127.39	119.24	121.16
Oklahoma	185.43	199.96	155.83	145.47	138.77
Oregon	136.89	129.90	117.14	110.39	110.80
Pennsylvania	161.74	135.57	122.18	123.19	121.11
Rhode Island*	97.92	84.29	85.84	62.75	84.82
South Carolina	178.07	155.00	151.14	145.64	137.02
South Dakota	167.46	188.80	140.76	126.85	135.06
Tennessee	282.75	259.47	200.72	176.30	169.29
Texas	182.67	180.61	144.12	129.43	124.03
Utah	203.57	177.40	137.38	146.57	136.20
Virginia	120.20	140.33	151.73	142.63	157.54
Washington	132.33	127.21	108.80	109.60	111.94
West Virginia	165.37	158.46	141.88	154.34	146.34
Wisconsin	144.02	145.62	118.35	114.73	111.90
SMA's of 42 States	183.03	173.55	141.71	134.90	130.09

* Data seem internally inconsistent.

SOURCE: Developed from United States Census data.

tized in 1928 when William J. Reilly developed a formula for estimating the relative ability of cities of different sizes to draw trade from their hinterlands. This formula, which became known as "Reilly's Law of Retail Gravitation," was based on an assumption that, other things being equal, the ability of a city to attract customers from outside its boundaries was a function of the city's size.

Many people have made trade flow surveys, and have found that Reilly's Law tends to work. It has also stood up under the test of logic, as larger cities obviously have attributes which tend to attract trade from greater distances than is possible for smaller ones. Not only does the retail structure of a major city offer the consumer a wider assortment of goods, but many non-retailing attractions bring him to the city and expose him to the shopping enticements that exist in such abundance.

Although there are no retail sales data available prior to 1929 to support such an assumption, it seems certain that during the second and third decades of this century retailing concentrated in large population centers at a rapid rate. Anyone old enough to recall the twenties will remember seeing rural trading centers dry up as the automobile and the paved highway brought the city and its attractive offerings closer and closer in time and convenience. Across the country thousands of small trading centers which had once offered most of the goods and services needed by nearby residents were reduced to wide places in the highway, with only convenience goods available, as the automobile replaced the horse-drawn vehicle as the customary means of transportation.

Rising cash incomes of non-metropolitan residents, their rising living standards which made possible the purchase of greater proportions of shopping and luxury goods, and their increasing level of education and sophistication all seem to have directed the flow of trade toward the city. Despite the fact that these forces are still in operation, the rate of trade flow toward the major city has diminished, and the diminution process appears to be continuing.

The Diminution Process

This finding is important for two reasons. First, it indicates that those business concerns whose marketing plans have been based on the assumption that non-metropolitan markets are becoming progressively less important should reconsider both their assumptions and their plans. Second, it makes apparent the need for developing and testing hypotheses to explain the narrowing of the gap between metropolitan and non-metropolitan per capita retail sales. The remainder of this article suggests and discusses such hypotheses.

Food purchasing patterns. A shift from the consumption of home-produced goods on the part of non-metropolitan consumers may have contributed to the changes observed. This certainly seems to be a logical possibility which would affect food purchasing patterns particularly, if a significant number of households which once produced a large part of their dairy, poultry, and garden products now buy them at retail.

Non-metropolitan concentration. Elimination of the country crossroads store and the concentration of surviving non-metropolitan establishments in shopping towns may now provide consumers with acceptable assortments of goods and services. This poses the interesting question of how large the assortment must be in order to hold trade in a local area. While the answer to this question must depend on how far away in distance, time, and convenience larger assortments are, it is obvious that a "holding assortment" does not need to be as large as a "pulling assortment."

In this connection, it is possible that an increasing degree of conformity in consumption has made it possible for a retailing center to cater to a wider range of consumer classes without a substantial increase in the assortment of goods and services offered. In other words, the greater the homogeneity of non-metropolitan consumer tastes, the greater the proportion of local trade which can be held by an assortment of a given size.

Higher income. One of the most obvious hypotheses is that the observed change in per capita retail sales can be attributed directly to increases in relative per capita cash income in non-metropolitan areas. As attractive as this explanation is, it is vulnerable to attack on three grounds. First, there is little evidence that non-metropolitan gains in per capita income have consistently outrun those in the Standard Metropolitan Areas. Second, relatively little is known about the relationship of income to retail sales except that the latter seems to rise at a slower rate than the former. Third, and probably most important, trade flow studies have usually indicated that the higher the income of a family, the greater the distance its retail trade is likely to flow. Consequently, a logical argument could be made that rising non-metropolitan incomes would, by stimulating trade flow, tend to generate greater concentrations of trade in metropolitan areas.

The arguments above make it apparent that distribution of income may be more important than total income in influencing trade flow. Hence, any trend toward leveling off of income reduces the relative importance of high income groups who have traditionally gone considerable distances to buy shopping and specialty goods. The best income-related hypothesis, then, seems to involve a Keynesian-like generalization such as "The more evenly income is distributed among consuming units, the smaller the amount of retail trade which will flow to distant trading centers."

Sophistication. One of the most intriguing hypotheses is that cultural changes have taken place which make "going to the city" less attractive to non-metropolitan residents. In the first place, the non-metropolitan resident has become progressively less unlike the city dweller in the way he dresses, the products he uses, and the home in which he lives. It has become more and more difficult to identify the rural or small town dweller by his appearance, his speech, or his tastes. He has been mobile for two generations, has been to the city many times, and is now sophisticated enough not to feel elated at the prospect of going there.

To the extent that these statements are true, the non-retailing aspects of

the city no longer exert the magnetism they did when the city was a wondrous place, alien and exciting, and when going there regularly was a mark of status. In addition, highway congestion, parking difficulties, and other frictions of a metropolitan character may make the frustrations of a trip to the city outweigh its attractions.

Brands and services. A growing importance of brands as standards of value and quality may have made it less important for the non-metropolitan buyer to patronize metropolitan stores whose prestige stands behind the quality of their merchandise. Reason indicates that this is a tenable hypothesis which might apply to many types of highly advertised merchandise. Certainly the small town resident can make local purchases of many kinds with the assurance of getting exactly the same product that would be available in the city, and he can often do so with adequate knowledge of comparative prices.

Not only are some major items bought with the brand as an assurance of quality, but many of them, which were not even on the market thirty years ago, require one or more of such services as delivery, installation, and maintenance. Service considerations may indicate local purchase even when local vendors charge higher prices or offer smaller assortments than those available in metropolitan centers.

Convenience goods. These have long been defined in marketing literature as those products which the typical consumer buys at the most convenient place rather than taking the trouble to visit a number of stores in order to compare prices and quality. Such goods tend to be standardized and to have relatively low unit costs, resulting in a minimum of risk of obtaining inferior quality and a minimum of potential saving from shopping around.

Changes in consumer incomes and attitudes may have broadened the range of products now bought on a convenience basis. The much wider range of products carried in food and drug stores (convenience goods stores) certainly indicates that this has taken place, and, to the extent that it has, may explain part of the observed phenomenon of decreasing retail concentration in the Standard Metropolitan Areas.

Deterioration and development. These are only a few of the possible explanations for the changes which have taken place. Many others could be advanced, some of them perhaps more valid than those listed. It may be, for example, that a partial explanation has to do with the deterioration of SMA central cities as evidenced by the current demand for urban renewal projects in many places.

It may be that much of the observed change is simply a phenomenon of a stage of economic development. The data unquestionably show that retail concentration in SMA's is greatest in those states whose economies are still largely oriented toward agriculture, and where there are the greatest differences between metropolitan and non-metropolitan populations — differences in how they live, in how they make their livings, in income, and, perhaps, in cultural and educational levels. If this is the case, the observed decline in the relative importance of the nation's SMA's as trading centers is likely to continue as the pattern of economic

development in these states progresses, and as the differences between country and city diminish.

Shopping centers. One final hypothesis must be considered here and then demolished. This is the suggestion that diminished SMA retail concentration was brought about by the development of rings of planned shopping centers around major cities, causing trade which might have gone to the central core to be trapped in outlying areas. This possibility was nullified by using the SMA, which includes both the central city and fast-developing urban rings, as the unit for study.

FURTHER ANALYSIS

Much remains to be done in the analysis of population and retail sales data. This may throw additional light on the changes which have taken place and may help to explain them. For instance, preliminary work indicates that shifts have not been uniform by types of commodity. It appears that in the categories of food, gasoline, and lumber, building materials, and hardware (which also includes farm implements) per capita sales may now be as high in non-metropolitan areas as in the SMA's or even higher. On the other hand, as might be expected, apparel, furniture, and home furnishings still appear to be rather heavily concentrated in the SMA's, but much less so than in earlier periods.

Regardless of what further analysis may show, it seems certain that the rate of trade flow to major cities has declined. As important as this finding is in itself, its implications about our changing economic and social structure are more important. It may well be that there is now a need for the development of a "Law of Retail Dispersion."

The American Future: 1845

Here [in western New York state], instead of dwelling on the past, and on the signs of pomp and grandeur which have vanished, the mind is filled with images of coming power and splendor. The vast stride made by one generation in a brief moment of time, naturally disposes us to magnify and exaggerate the rapid rise of future improvement. The contemplation of so much prosperity, such entire absence of want and poverty, so many schoolhouses and churches, rising everywhere in the woods, and such a general desire of education, with the consciousness that a great continent lies beyond, which has still to be appropriated, fills the traveler with cheering thoughts and sanguine hopes.

Charles Lyell, *Travels in North America*

JAMES DON EDWARDS
B. C. LEMKE

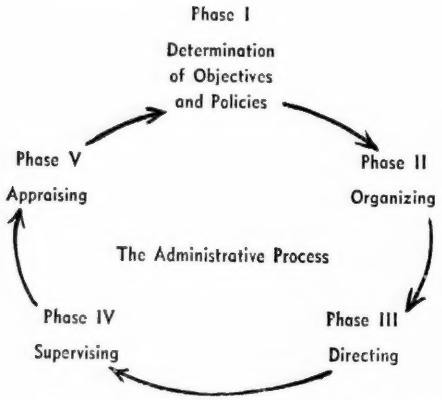
Administrative Control and Executive Action

The function of managerial accounting is to facilitate informed decisions by administrators.

Control is one of the important and essential steps or parts of the administrative process. The increasing complexity and growth of modern organizations together with the increased need for improved methods of communication and reporting have forced management to pay greater attention to this aspect of administration. Control follows planning, but just how closely and how much it includes depends on how broadly or minutely the administrative process is subdivided.

Used negatively, the word 'control' implies such things as purposeful restraint or restriction. But the word can also be used in a positive sense to suggest the helpful aspects of review and guidance with strong overtones of supervisory powers. Within an administrative frame of reference, a definition must include the review of actual progress by comparing it with the plan and isolating the variance or deviation. An expansion of the definition is achieved by the addition of the "doing something" about the preemergence, correction, or disposition of the variance or deviation.

The administrative process can also be described graphically. This method of explication has the advantage of clarity together with a visual representation of the interdependence of the various aspects which together compose what is known as the administrative process. The accompanying model portrays the relevant relationships making clear that objectives and policies should be defined prior to the work of organizing. Once there has been developed a plan of organization consistent with the established objectives and policies the elements of administrative control—directing, supervising, and appraising—are brought into the administrative process.



Debate as to whether administration or management is an "art" or a "science" will undoubtedly go on endlessly; in part, but not altogether, this is due to a lack of common agreement on the difference between the two. Regardless of the classification favored by the reader, there can be little doubt that administration or management, especially of business, has tended to evolve as a clearly defined profession in the United States because of the extensive use of the corporate form of organization, which encourages a marked separation of ownership and management. The growth in size and prestige of collegiate schools of business reinforces the concept of business administration as a distinct professional area.

Control, like administration and management, is subject to a variety of definitions or shades of meaning. Certainly it is one of management's most important functions, running a close second in importance to decision-making. Control may be viewed as playing the relatively passive role of reporting the progress made in carrying out a decision once it has been made. This process usually is a matter of comparing the plan which implemented the decision with the actual accomplishment in order that deviations or exceptions can be noted and appraised. Many of the early management theorists held this view. In contrast to it is the belief that the concept of control must include more than mere measurement and reporting activities. Not only, it is argued, should this concept of control include the appraisal or evaluation activity, but it should be given a still more active role. It is held that control is dynamic; it includes the purposeful activities of assuring compliance with the plans and policies previously developed.

Control Objectives

Control is a multi-dimensional concept. Its function can be identified at all levels of action as well as in all types of activity whether creative or routine, human or mechanical. The thermostat in a heating device is a conventional example of a control system. Its function is the comparison of actual temperature with a pre-planned temperature and the inducement of such adjustments of the heating device as are necessary to maintain the pre-planned temperature within specified tolerances. Essentially the same principle is used in the design of certain audio-amplifiers in which information on distortion of the about-to-emerge signal is fed back into the amplifier quickly enough to alter the situation, so that the signal which finally actuates the loudspeaker is free of distortion to the extent planned for in the circuitry.

The two control devices just described operate in different manners: the thermostat reacts to offset a vari-

ance after it occurs, whereas the feedback amplifier prevents the occurrence of a variation. Similarly, differing control objectives are found in systems applied to human activities. Frequently the functions of the thermostat are divided between two groups of persons so that both groups become elements of a control system. One group may compute and analyze the excessive fall or rise of actual temperature and report these observations to another group or element in the system. The second group's function, then, becomes a matter of selecting the appropriate action which, in human affairs, is usually more complex than merely increasing or decreasing the utilization of the heat energy source.

AREAS OF CONTROL

The administrator of a business enterprise has the aggregate administrative responsibilities. In order to assure achievement of the specified objectives it becomes necessary for him to establish specific areas of control, among them cash, inventory, research and development, production processes, marketing operations, and personnel.

Cash Planning

With respect to the problems of controlling the cash position of an enterprise, the executive must recognize the fundamental importance of cash forecasting. It is by forward planning that one can establish a continuous balance between cash position and the other aspects of the plan. The short-term cash plan is measurable against recent actual performance and current trends, while the long-term cash plan is subject to such broad influences as national economic trends, the effect of technological and competitive progress on customer demand, and the development of new products and new markets. These forces direct management into continuous reappraisal of manufacturing facilities, materials procurement methods, labor supply, and projected cost-price relationships.

It is frequently recommended that a projected application of funds statement be prepared at the time a cash budget is completed. The preparation of both of these tools will help the executive to identify trends which become manifest in the cash budget balance sheet. The fundamental purpose of the pro forma fund statement does not pertain to the income-generating and income-measuring process, but rather to data about the related but distinct task of financial management of the business enterprise.

Inventory

The inventory management objective of the enterprise is focused upon the continuing existence of balanced, strategically located stocks of inventory available for quick shipment. An integrated program is required to coordinate general, sales, financial, purchasing, and manufacturing management since all have the common objective of customer goodwill and the addition of new customers who are attracted by the fruits of progressive inventory management: reliability of the source of supply in conjunction with factors of price and quality. Decisions with respect to the control of finished goods should generally be assigned to the merchandising group since these people are most familiar with customers and market characteristics.

A major criterion in the valuation of an inventory and production planning system is the degree to which customer requirements are satisfied. Usually a company having a high degree of reliability in meeting shipping promises will also have a high profit within the industry.

An inventory control system should not only be flexible but should also be explicitly and carefully designed. The task needs special analytical tools; in a complicated business it defies common sense, intuition and simple arithmetic. Methods must be employed which take into consideration uncertainty and the response characteristics of the system and relate these factors to cost. Such methods are the distinguishing characteristics of a modern, progressive control system. A considerable amount of research into sales and product characteristics is required and considerable effort can be saved with an ability to sense which of the many alternative approaches is likely to be fruitful.

Some businessmen are prone to view inventories with distaste, as an apparently necessary drain on resources or as something that no one has been able to eliminate, but hardly a productive asset like a new machine or tool. Actually, however, inventories are as productive of earnings as other types of capital investment; they serve as the lubrication and springing for a production-distribution system. A comprehensive inventory control system should be closely coordinated with the other planning and control activities including sales forecasting, cash planning, and capital budgeting, since it affects all of these in many ways. The specific steps and timing will vary from one company to another depending upon product and process requirements, nevertheless the essentials of an inventory control system can be grouped into three broad categories: long-range inventory planning, short-range planning, and scheduling.

Research and Development

Planning is the key to administrative control. At the company level, it determines the amount of money that can be allocated to research. The research management distributes these budget dollars to fit the particular program. A cost-reporting system then provides management with the necessary information to analyze, control, and schedule research activities to the best future interests of the company.

However, establishing a budget does not give the director of a research and development program a guide for the programming of efforts. Such guidance is invaluable for those who must make decisions, direct the orderly progress of the development program, and intelligently plan and control the work of the department. Cost records and reports are the means whereby those responsible for the functioning of the research department can control the expenditures and determine the amount of funds available for subsequent operations. Thus the financial and accounting executives assist in the direction of the research and development division towards the ultimate goal of all concerned: progress for the organization, growth, and additional profits.

Production Processes

Operations research will help the business executive of the future make

decisions more intelligently in various areas of control, but the decisions will always remain to be made. The possibility of removing all subjective and qualitative factors must be deemed at the present time to be more a hope than a real possibility. The construction of completely consistent and logical goals, while a reasonable objective in decision making, may be unattainable. Hence the balance of the responsibilities to society, consumers, owners, and employees is likely to remain the fundamental task of the executive.

Operating efficiency is the result of continued satisfactory control over operations by the executive. It has been suggested that the relationship of operating profit to gross assets is the best measure of operating efficiency. Where control of cost cannot readily be measured in terms of dollars, as in the case of broad investigative and research programs in manufacturing, engineering, and sales, a project control system may be used.

Nothing paralyzes action on the part of executives like excessive analysis of figures. A good general rule is to carry the analysis of breakeven only far enough to give direction and stimulus to effective action on the part of the executive concerned. Only a few charts should be used to enable the top administrative officials to maintain an adequate perspective of the enterprise as a whole and to direct and encourage effective action on the part of managers in the lower echelons. As a matter of fact, almost anything an executive wants to know about the operating economics of the business enterprise can be learned through the use of breakeven point controls.

The learning curve has been a useful analytical tool in certain production process and administration problems. Basically, the theory of the learning curve is simple: a worker learns as he works, and the more often he repeats an operation, the more efficient he becomes so that the direct labor input per unit of product tends to decline. About a decade ago it was realized that the rate of improvement is regular enough to be predictable. There is every indication that the learning curve offers a practicable answer to the needs of thousands of manufacturing companies for reasonably accurate forecasts of direct labor requirements and productivity, but it is still a relatively new device in a more or less experimental stage of development.

Marketing Operations

Within the sphere of marketing, the control function extends far beyond sales. It entails cooperation and coordination with other segments of the organization, specifically with the production and finance personnel. The marketing executive must explicitly consider the interrelationships which exist between the various functional areas of a business organization if the sales volume and dynamics for which he is responsible are to provide the organization with the optimum net income and the maximum growth potential. Cost accounting, properly interpreted, is essential to administrators for guidance in avoiding unprofitable sales and for proper orientation in the search for sales which will produce optimum profits. Such techniques as the allocation of fixed cost by territory should be avoided since the results are potentially unreliable and misleading.

Of course it must be recognized that marketing decisions based upon figures alone would be ill-advised.

Personnel

The control of quality is a most important factor in the manufacture of physical products; similarly, quality control is important with respect to the human beings who are engaged in the various activities involved in the manufacturing process. A major factor which should be kept uppermost in mind by those engaged in any phase of personnel quality control as by those contemplating the initiation of any of the techniques of personnel control is that they are dealing with human beings rather than with machines or other inanimate objects. If a company whose top executive is human-relations-oriented develops a competent staff of personnel technicians and extends to them the authority commensurate with their responsibility, the results in the form of improved quality of personnel should become evident in a relatively short time.

The business firm needs a more adequate measure of organizational performance than is now available. Progress in the social sciences now indicates these measurements are possible. Thus executives require such measures as will provide them with the data necessary to fill the current serious gap in the information which flows to them and their organization.

EXECUTIVE ACTION

The successful and efficient discovery, evaluation, and ranking of alternative propositions, which is essential to good planning, requires a rather intensive use of staff functions and personnel. None of the "tools"—such as may be found in the fields of accounting, marketing, finance, economics, statistics, mathematics, and engineering —should be arbitrarily rejected.

Methods and Procedures

The budgetary process oftentimes is used in overall planning as a coordinating device. But even in the event that a budget is not prepared and formally adopted, a comprehensive planning of future action should utilize many if not all of the steps of the customary budgetary process. Planning, of course, occurs at various levels of the organization and varies considerably in importance as do the decisions which are expected to result from planning. Therefore it is necessary that time and resources devoted to a particular planning effort should bear a reasonable relationship to the importance of the decision.

The argument applies with equal force to the subsequent control of the selected plan. The many facets or dimensions inherent in a comprehensive planning situation should be isolated, evaluated, and coordinated to the extent that this is possible. Difficulty in deciding what order or ranking should be assigned various alternatives is always encountered and it seems unlikely that it will ever be possible to achieve a completely objective, non-debatable solution to the problem. Yet an efficacious approach to planning will go far in minimizing the problem of selection from among alternatives.

Control and Accountants

The accountant has a genuine contribution to executive action as a control function. Breakeven analysis brings

the accounting executive close to basic economic concepts inasmuch as the objective of management—maximization of profits—is a salient factor in both accounting action and economic theory. Prior to any attempt at the construction of breakeven charts, it is advisable to establish theoretical total revenue and total cost curves for the business enterprise in accordance with the applicable economic principles. In doing so, the accountant must make clear the underlying assumptions and limitations of breakeven charts.

Breakeven analysis will be found to be more useful in short-run planning than in long-run decision making, since the forecast of revenues and expenses tends to become more unreliable the longer the period covered in the projection. Of greatest importance is the placing of emphasis in planning on the relative profitability of alternative courses of action rather than on the breakeven point.

The next logical step based on the breakeven analyses is the development of a profit plan. One major advantage can be gained by the development and use of a profit plan. Given the existence of such a plan, the future decisions concerning the addition of products or facilities, or the making of expenditures, may be based upon the effect such courses of action will have on return on investment. Once the profit goal has been established, the most expeditious method of achieving it must be determined. This requires knowledge of product position in the market, long-run sales expectancy, and the price at which that sales volume can be realized. Thus, if the budget is realistic and consistent with the profit objective and if the operations are planned in advance each month so that expenses are limited to those justified by the volume of production, the enterprise will be well on the way toward accomplishment of its profit objective. However, if the control system is to remain dynamic, it is of primary importance that the top administrative officers give full and enthusiastic support and cooperation to the system.

The decision making process involves action which must be taken in the future. Such action involves the evaluation of the factual data and qualitative factors and the determination of their effect on the business or the particular problem. The accounting executive must continue to do a good and constantly improving job of internal reporting and forecasting. The accountant can and should participate in the making of external as well as internal forecasts, for his experience in the internal economic operations of the enterprise can be most useful in the external forecast. If the accountant assumes increasing responsibilities for the external forecasting of the firm, he will broaden the scope of his responsibilities and fulfill the natural implications of his function on the management team.

The Controller Concept

Increasing evidence of the accountant as a part of the internal management team can be found in the extensive growth of the controller concept. The major emphasis upon quantitative data, to be handled logically in the honest attempt to be impersonal and objective in reports and analyses, is a primary characteristic of the accounting mind. In this process the controller continues to call management's atten-

tion to the consequences of daily activities through the emphasis upon the long-run or ultimate effects of current activities. The controller then has the responsibility of using the accounting procedures as a means of following up and checking upon management decisions. One of the most valuable services the controller can perform for his fellow administrators is to help them put their plans into such form, and to match the actual performance against those plans on an independently impersonal physical or quantitative basis. This view of his function recognizes that the primary justification for the existence of managerial accounting in any form is the use that management can make of it.

The area in which much has been done by the accounting executive is cost analysis. One helpful concept in analysis is marginal costing, which may be defined as an estimation of the amount, at any given volume of production or output, by which aggregate costs are changed if the volume of production or output is increased by one unit. The main feature of a marginal costing system is the separation of a business's variable costs from its fixed costs, and the control of each type by varying methods so as to give maximum efficiency and to reveal the effect upon profit of changes in output. The marginal costing also enables management to gain the maximum net income during any period by concentrating on the maximum contribution per unit of the cost element in short supply.

An Increasingly Important Objective

The distribution cost analysis phase of cost analysis has come into prominence because these costs have tended to rise, and the achieving of greater distribution efficiency has become an increasingly important objective for more and more companies that are forward-looking. When a company succeeds in increasing its distribution efficiency, it is able to make more goods available to more people at lower prices. The performance of specific marketing activities, the determination of the costs and profits for various segments of the distribution system, and the analytical techniques used by the individual business concern have become known as distribution cost analysis. Distribution cost analysis is used by executives as an aid in determining profitable objectives for the enterprise, in settling policies and procedures of operation, and in measuring the profitability of operation in individual segments of the firm. It is in the area of distribution cost analysis that marketing and accounting executives should try to become more conversant with their mutual problems in developing and applying distribution cost figures.

Business executives need more information in a form they are able to understand. Cost accountants have developed systems that provide management with some information, usually timely and useful, but frequently little understood by administrators. Direct costing, a new concept, is a step in the direction of making more understandable cost analysis. The essential difference between absorption costing and direct costing is that the first emphasizes the distinction between production costs and all other costs whereas the second emphasizes the distinction between fixed costs and variable costs. It shows clearly and immediately, the cost-volume-profit relationship.

A. THOMAS NELSON
KARL M. SKOUSEN

Security Price Forecasting

Analysis of inventory/sales ratios can be a valuable tool to the prudent investor.

Since the great depression of the 1930's and even for decades before, investors have sought to find a magic indicator which would forecast changes in securities prices with some degree of precision. The long-term investor has been primarily concerned with major dips in the economic cycle which might indicate a general stock crash. Since he has been primarily concerned with dividends and long-run appreciation, he has not normally been overly concerned about relatively minor fluctuations in security prices. He has followed the philosophy that what goes down will eventually come back up, and therefore has patiently waited things out. The speculator, on the other hand, has centered his attention around these minor fluctuations in the business cycle, since historically stock prices have fluctuated widely during the periods of recession and subsequent recovery.[1] By carefully timed movements in and out of the market, the speculator has hoped to capitalize on the wide fluctuations of individual securities. He has been primarily interested in capital gains rather than dividend income.

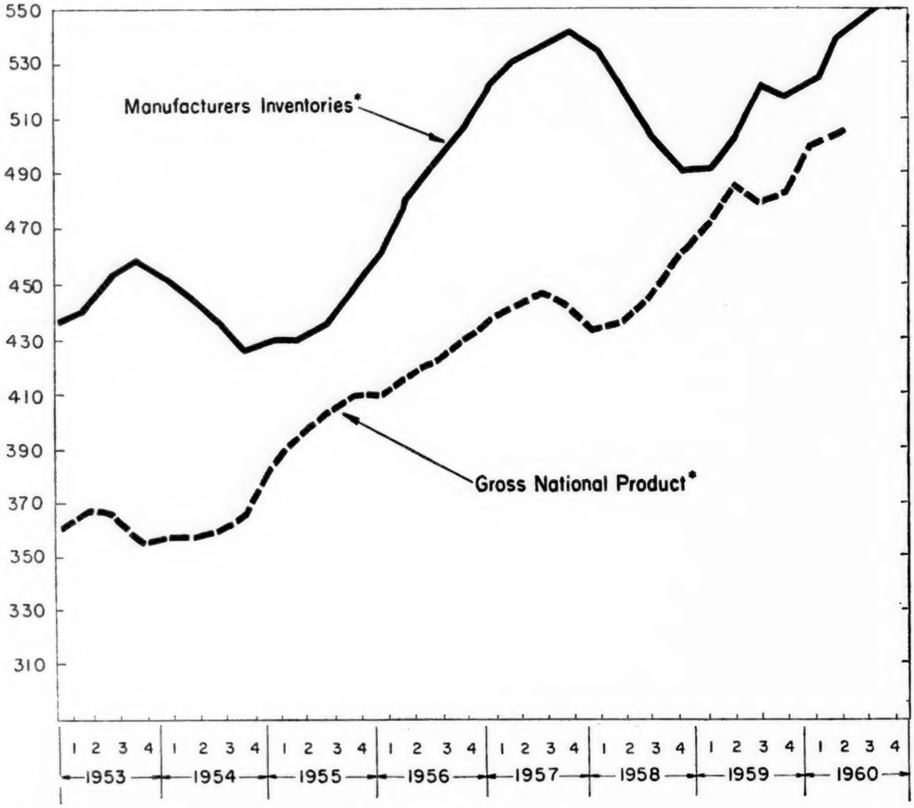
This article is concerned with the forecasting of short-run fluctuations in the business cycle and does not deal with the problem of predicting major depressions. Therefore it will be of primary interest to the speculator who is interested in moving in and out of the securities market for capital gains.

Many plans, such as the Dow Theory, have been devised to provide the speculator with an automatic indicator which will enable him to always buy low and sell high. None of these has provided the magic answer, nor is it the purpose of our study to imply that this Utopian situation has at last been reached. On the contrary, it is the opinion of the authors that there is no

EXHIBIT I

COMPARISON OF TOTAL MANUFACTURERS' INVENTORIES AND GROSS NATIONAL PRODUCT*

U.S.A. — 1953-1960



* Manufacturers' Inventories in Millions of Dollars
Gross National Product in Billions of Dollars
Source of Data: *Survey of Current Business*

crystal ball into which the prospective investor can gaze and clearly see the future unfold before his eyes. The economy is too complex and the components of gross national product (GNP) too closely interrelated to permit one factor to predominate and forecast the movement of the economy as a whole. On the other hand, on the basis of our study we believe that business inventories are a very significant factor influencing fluctuations in the business cycle and that when considered with other factors they can be a useful tool in forecasting certain movements in security prices.

THE SIGNIFICANT INDICATOR

Naturally, one might wonder why we feel inventory movements are more significant than other indicators in forecasting fluctuations in security prices, for indeed, many have pointed to wholesale prices, residential construction contracts, unemployment, steel production, automobile output, and other factors as being the significant key to the future.

A Self-generative Cycle

Our reasons are twofold. First of all, an analysis of the postwar period has indicated that changes in business inventories have been a dominant factor in both recessions and subsequent recoveries. Second, inventories have their own self-generative cycle. This is most significant, for while it is recognized that all components of GNP are closely interrelated, it should nevertheless be noted that inventories maintain a cycle somewhat of their own. In each phase of this inventory cycle there exists an imbalance condition. This imbalance generates the next phase which in turn has its own condition of imbalance.

Imbalance implies a state of being out of equilibrium, or out of proportion. Inventories may be said to be in a condition of imbalance when reductions during a given period of time are not equal to additions during the same period. In other words, inventories are only considered balanced when net inventory investment is zero. In the industrial economy in which we live, we find that inventories seldom reach this balanced condition. Instead, businessmen are constantly in the process of inventory build-up or liquidation as they pass through this cycle of imbalance. To illustrate the self-generative nature of this process, the business cycle may be broken into six phases:

Late Decline. The imbalance during the late decline phase is slowly declining sales and rapidly declining inventories. Unless some other factor can be found which will cause a further substantial reduction in sales, this imbalance condition must produce recovery.

Early Recovery. The imbalance is slowly rising sales and slowly declining inventories, the latter coming about because of involuntary inventory liquidation. As businessmen begin to get comfortable with inventories, they start ordering new stocks, thus generating the next phase.

Middle Recovery. The imbalance is rapidly rising sales and rapidly rising inventories. It is hard to see the imbalance in this phase; however, the significant point of imbalance is the fact that there is nothing to cause a further increase in the level of sales.

Late Recovery. The imbalance is slowly rising sales and rapidly rising inventories. When inventories get high enough so that businessmen are again comfortable, they begin to cut orders, thereby causing a decline in spending for production and in turn, income and consumer spending.

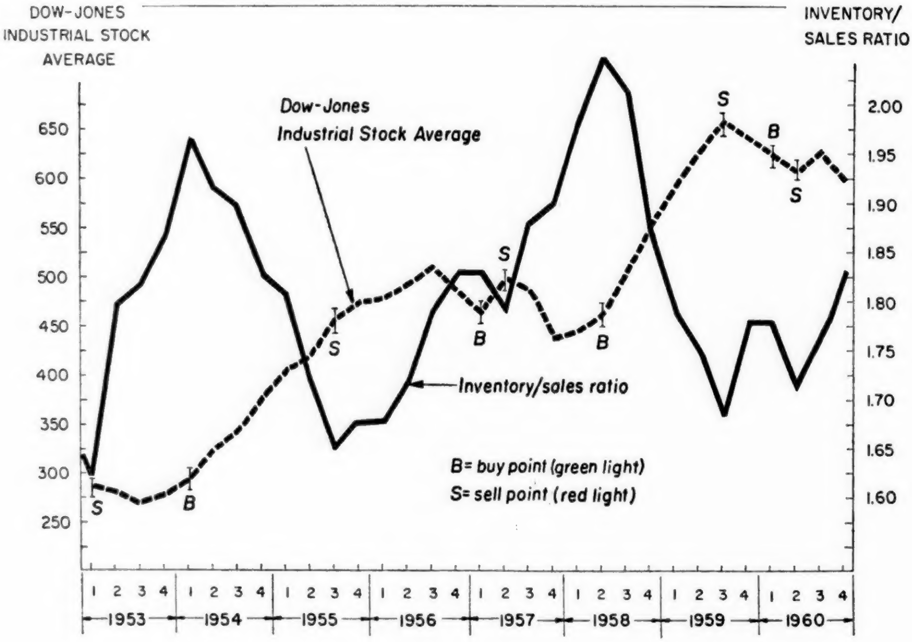
Early Decline. The imbalance is slowly declining sales and slowly rising inventories. During this phase there is some involuntary inventory accumulation causing a desire to further curb the production and purchasing of inventory, thereby initiating the next phase.

Middle Decline. The imbalance is rapidly declining sales and rapidly de-

EXHIBIT II

COMPARISON OF MANUFACTURERS' INVENTORY/SALES RATIO AND DOW-JONES INDUSTRIAL AVERAGE

U.S.A. — 1953-1960



clining inventories. There is nothing here to cause a further decline in sales and so the next stage is started and the cycle is completed.[2]

Graphic Presentation

As shown in Exhibit I, our study indicates that total manufacturers' inventories lag the business cycle.[3] This would seem to invalidate our claim that business inventories may be useful in forecasting certain movements in security prices which themselves lead the business cycle. The factor which we feel is significant, however, is not manufacturers' inventories alone, but rather their relationship to sales as reflected in the inventory/sales ratio.[4]

In Exhibit II, we have plotted movements in the Dow-Jones Industrial Stock Average since the beginning of 1953, together with changes in the inventory/sales ratio. The latter data have been plotted on the basis of a three-month lag: the inventory/sales ratio points plotted on the graph represent the inventory/sales ratio for the quarter preceding that shown along the horizontal axis. This lag makes the graph more meaningful for two reasons. First of all, there is some lag required in getting the information necessary to plot the inventory/sales ratios. For example, the August issue

of the *Survey of Current Business* contains information only through the preceding June. Second, the speculator would likely wait at least a short period of time to make sure that any change in the ratio was a real turn and not merely a monthly fluctuation. Since our graph is plotted from quarterly data, we have assumed the total lag would approximate three months.

It is interesting to note that each significant fluctuation in the stock market has been accompanied by an opposite fluctuation in the inventory/sales ratio. This has even been true for relatively small fluctuations such as the recovery early in 1957 and the decline which followed in the middle of that same year. Note that the inventory/sales ratio turned up at approximately the same time as the stock market turned down.

From this graph, it would appear that when the inventory/sales ratio turns down, this is the investor's green light to buy stocks. On the other hand, when the inventory/sales ratio turns up, this is the investor's red light to sell stocks. Note that such action during the period of the graph would have resulted in the investor buying *near* the trough and selling *near* the peak. For example, the inventory/sales ratio turned down during February, 1954, at which time the Dow-Jones Industrial Stock Average was 292.[5] The inventory/sales ratio turned up during August, 1955, at which time the Dow-Jones Industrial Stock Average was at 457, an increase of 165 points. In most cases the inventory/sales ratio did not indicate the precise turning point in the Dow-Jones Industrial Stock Average. Normally, however, it was close enough to the turning point to enable the investor to benefit from most of the rise and avoid any significant decline. This may be seen on the graph by noting the buy (B) and the sell (S) marks, which have been plotted on the Dow-Jones Industrial Stock Average from the turning points indicated by changes in the inventory/sales ratio.

Certainly a word of caution is in order at this point. There are a number of factors which make this graph somewhat misleading. In the first place, it should be mentioned that we are dealing here with historical data, and what has been true in the past will not necessarily follow in the future. Second, the graph presents averages, and individual stocks do not necessarily behave like the average. Finally, it should again be mentioned that while inventories have historically been a dominant factor effecting changes in GNP, all components are closely interrelated and, therefore, complete reliance should not be placed on any one factor. Note that during small fluctuations such as the one which occurred early in 1960, the practice of following the inventory/sales ratio may have resulted in poor timing. This seems to confirm our previous contention that no one indicator can be followed blindly without regard to other factors.

CRUCIAL DECISIONS

So far we have centered our discussion on the importance of timing to the speculator. Since the degree of fluctuation varies greatly among individual securities, the selection of the proper industry and firm are also crucial decisions. Let us turn for a moment to a discussion of these factors.

Choice of Industries

Since we have already demonstrated that business inventories are an important factor influencing recessions and subsequent recoveries, it seems logical that the industries which produce these inventories would suffer most from the fluctuations in the cycle. Also, during periods of recession, a manufacturer of durable goods suffers because consumers tend to defer purchase of these goods until the recovery period is clearly in sight. For these reasons, and perhaps others as well, it would appear that the speculator could normally expect wider movements in securities prices in durable goods industries than might be found in the nondurable goods industries. Inasmuch as he is interested in capitalizing on fluctuations, the speculator will normally pick the more volatile industries.

Choice of Firms

In regard to the selection of a firm, the speculator will consider certain factors that go to make up strength and weakness, such as relative size and the record of earnings and dividends. It would appear desirable to concentrate on the weaker firms during the downturn and on the stronger firms during the recovery. The theory is that since the weak firm will suffer most from a reduced market, the speculator can sell this stock short, ride it downward, and cover the short sale at a lower price. By the same type of reasoning, the speculator can buy the security of the strong firm at a depressed price, ride it upward, and sell out near the peak for a gain.

CASE STUDIES

In order to illustrate how the inventory/sales ratio may have aided the speculator had he applied it to the period of our study, we have made three hypothetical case studies which are shown as Exhibits III through V. The industries were selected by the criterion previously described, that is, each manufactures durable goods. In our studies, the turning points indicated by changes in the direction of the inventory/sales ratio were followed automatically without regard to considerations involving judgment on the part of the speculator.

It is conceded that we had the advantage of some hindsight in making our selections; however, they were based primarily upon information which would have been available on the date coinciding with the beginning of our study.[6] In order to remove the criticism that we used hindsight, we "bought" and "sold" automatically at each turning point indicated on Exhibit II and used the same firms throughout the entire study. It should be noted that no decisions were made which would have required judgment on the part of the speculator. This does not mean that we recommend that the speculator lock himself in a dark room and blindly follow the inventory/sales ratio. On the contrary, we feel that successful speculating is an art which requires the exercise of greatest skill and judgment. To our knowledge, there is no tool which can replace sound judgment. We strongly believe, however, that the inventory/sales ratio can be used as a tool in making sound investment decisions.

The need for judgment is clearly pointed out in Exhibit III. On August

EXHIBIT III

CASE STUDY 1 — AUTOMOBILE INDUSTRY

Security	Type of Transaction	Date[1]	Price[2]	No. of Shares	Net Cost or Proceeds[3]	Gain (Loss)	Total Investment
Original Investment							$10,000
Studebaker Corp.	Short Sale	Feb. 16, 1953	41¼	240	$ 9,786		
Studebaker Corp.	Cover	Feb. 15, 1954	19¾	240	4,811	$ 4,975	14,975
General Motors Corp.	Buy	Feb. 15, 1954	62⅛	230	14,426		
General Motors Corp.	Sell	Aug. 15, 1955	127⅝	230	29,259	14,833	29,808
Studebaker-Packard Corp.	Short Sale	Aug. 15, 1955	9⅞	3,050	29,596		
Studebaker-Packard Corp.	Cover	Feb. 18, 1957	7	3,050	21,783	7,811	37,619
General Motors Corp.	Buy	Feb. 18, 1957	40⅛	900	36,331		
General Motors Corp.	Sell	May 13, 1957	43¾	900	39,140	2,809	40,428
Studebaker-Packard Corp.	Short Sale	May 13, 1957	7¼	5,600	39,802		
Studebaker-Packard Corp.	Cover	May 19, 1958	4⅛	5,600	23,723	16,079	56,507
General Motors Corp.	Buy	May 19, 1958	37⅝	1,480	56,256		
General Motors Corp.	Sell	Aug. 17, 1959	55	1,480	80,763	24,507	81,014
Studebaker-Packard Corp.	Short Sale	Aug. 17, 1959	11⅜	7,000	78,339		
Studebaker-Packard Corp.	Cover	Feb. 15, 1960	17⅞	7,000	126,866	(48,527)	32,487
General Motors Corp.	Buy	Feb. 15, 1960	46⅝	670	31,578		
General Motors Corp.	Sell	May 16, 1960	44⅝	670	29,634	(1,944)	30,543
Studebaker-Packard Corp.	Short Sale	May 16, 1960	11⅛	2,730	29,870		
Studebaker-Packard Corp.	Cover	Jan. 16, 1961	7⅜	2,730	20,533	9,337	
Total Value of Speculator's Investment							**39,880**
COMPARISON WITH LONG-TERM INVESTOR							
General Motors Corp.	Buy	Feb. 16, 1953	66¾	145	9,921		
General Motors Corp.	Sell[4]	Jan. 16, 1961	42⅜	435	18,239	8,318	
Total Value of Long-Term Investor's Investment							**18,318**
EXTRA GAIN THROUGH SPECULATION							**21,562**

[1] Since our buy and sell points were read from Exhibit II which is plotted from quarterly data, we have taken the mid-point of the quarter in which the turn came. The dates indicated are the end of the week which is closest to the middle of the quarter.
[2] Prices shown are the last sale of the date indicated as reported in *Barron's National Business and Financial Weekly.*
[3] Net cost and proceeds figures reflect cost or proceeds after giving consideration to New York Stock Exchange Commissions and odd-lot differential, when applicable. In the case of a purchase, the commissions have been added to the cost and in the case of a sale, they have been deducted from the proceeds.
[4] The number of shares increased from 145 to 435 as the result of a three-for-one split on September 30, 1955.

17, 1959, we sold Studebaker-Packard short, at a loss of $48,527. It would appear that the informed speculator would not have sold Studebaker-Packard short at that time, during the brightest period of the firm's history. In the fall of 1958, the company introduced the Lark and by August 17, 1959 (the date of our short sale), the company was reporting sales increases of 226 percent over the previous year.[7] It seems that undertaking a short sale in

EXHIBIT IV

CASE STUDY 2 — AGRICULTURAL MACHINERY

Security	Type of Transaction	Date[1]	Price[2]	No. of Shares	Net Cost or Proceeds[3]	Gain (Loss)	Total Invest-ment
Original Investment							$10,150
Minneapolis-Moline Co.	Short Sale	Feb. 16, 1953	17	590	$10,150		
Minneapolis-Moline Co.	Cover	Feb. 15, 1954	10⅝	590	6,379	$ 3,771	13,921
Minneapolis-Moline Co.	Buy	Feb. 15, 1954	10⅝	1,280	13,665		
Minneapolis-Moline Co.	Sell	Aug. 15, 1955	20½	1,280	25,879	12,214	26,135
Minneapolis-Moline Co.	Short Sale	Aug. 15, 1955	20½	1,280	25,879		
Minneapolis-Moline Co.	Cover	Feb. 18, 1957	15	1,280	19,491	6,388	32,523
Minneapolis-Moline Co.	Buy	Feb. 18, 1957	15	2,100	31,962		
Minneapolis-Moline Co.	Sell	May 13, 1957	16½	2,100	34,157	2,195	34,718
Minneapolis-Moline Co.	Short Sale	May 13, 1957	16½	2,100	34,157		
Minneapolis-Moline Co.	Cover	May 19, 1958	10¾	2,100	22,948	11,209	45,927
Minneapolis-Moline Co.	Buy	May 19, 1958	10¾	4,200	45,896		
Minneapolis-Moline Co.	Sell	Aug. 17, 1959	27⅞	4,200	115,610	69,714	115,641
Minneapolis-Moline Co.	Short Sale	Aug. 17, 1959	27⅞	4,200	115,610		
Minneapolis-Moline Co.	Cover	Feb. 15, 1960	22¾	4,200	96,800	18,810	134,451
Minneapolis-Moline Co.	Buy	Feb. 15, 1960	22¾	5,800	133,676		
Minneapolis-Moline Co.	Sell	May 16, 1960	18	5,800	102,950	(30,726)	103,725
Minneapolis-Moline Co.	Short Sale	May 16, 1960	18	5,800	102,950		
Minneapolis-Moline Co.	Cover	Jan. 16, 1961	20⅜	5,800	119,763	(16,813)	
Total Value of Speculator's Investment							**86,912**
COMPARISON WITH LONG-TERM INVESTOR							
Minneapolis-Moline Co.	Buy	Feb. 16, 1953	17	580	10,009		
Minneapolis-Moline Co.	Sell	Jan. 16, 1961	20⅜	580	11,645	1,636	
Total Value of Long-Term Investor's Investment							**11,636**
EXTRA GAIN THROUGH SPECULATION							**75,276**

[1] See Exhibit III, footnotes.
[2] See Exhibit III, footnotes.
[3] See Exhibit III, footnotes.

view of these circumstances would not be exercising sound judgment.

Different Techniques

The three studies differ in the following respects. In the first case, the automobile industry, both a weak and a strong firm were selected. The weak firm was sold short at each sell point and the proceeds generated were immediately invested in the strong firm and held until the next sell point. This process was continued until the investment was liquidated at the conclusion of our study on January 16, 1961. Although this date is not shown

EXHIBIT V

CASE STUDY 3 — STEEL INDUSTRY

Security	Type of Transaction	Date[1]	Price[2]	No. of Shares	Net Cost or Proceeds[3]	Gain (Loss)	Total Investment
Original Investment							**$10,007**
United States Steel Corp.	Buy	Feb. 15, 1954	40¾	243	$10,007		$10,007
United States Steel Corp.	Sell[4]	Aug. 15, 1955	52⅛	486	25,114	$15,107	25,114
United States Steel Corp.	Buy	Feb. 15, 1957	61½	404	25,064		
United States Steel Corp.	Sell	May 13, 1957	64⅞	404	25,990	926	26,040
United States Steel Corp.	Buy	May 19, 1958	60¾	425	26,038		
United States Steel Corp.	Sell	Aug. 17, 1959	100½	425	42,477	16,439	42,479
United States Steel Corp.	Buy	Feb. 16, 1960	85½	494	42,472		
United States Steel Corp.	Sell	May 16, 1960	79½	494	39,041	(3,431)	
Total Value of Speculator's Investment							**39,048**
COMPARISON WITH LONG-TERM INVESTOR							
United States Steel Corp.	Buy	Feb. 15, 1954	40¾	243	10,007		
United States Steel Corp.	Sell[4]	May 16, 1960	79½	486	38,405	28,398	
Total Value of Long-Term Investor's Investment							**38,405**
EXTRA GAIN THROUGH SPECULATION							**643**

1 See Exhibit III, footnotes.
2 See Exhibit III, footnotes.
3 See Exhibit III, footnotes.
4 The number of shares increased from 243 to 486 as the result of a two-for-one stock split on April 15, 1955.

on Exhibit II as a sell point, it was necessary to liquidate all investments as of this date in order to make final comparisons between the relative positions of the speculator and the long-term investor.

In the second case, the agricultural machinery industry, we also used the short sale; however, in this instance we selected only one firm. Shares of Minneapolis-Moline were bought on the same date that the short sale in the same security was covered. This firm was selected because of fluctuations noted in earnings during the 1947-1952 period.

In the last case, the steel industry, we selected only one firm and did not use the short-sale technique as we did in the other two industries. Shares of United States Steel were bought at the buy point and the entire investment liquidated at the next sell point. The proceeds were held without any investment until the following buy point when they were reinvested in the same security. The process was repeated until our investment was liquidated for the last time, on May 16, 1960. In this case we assumed the funds were idle between each sell point and the succeeding buy point.

The Results

At the bottom of each of our studies we have shown how the long-term in-

vestor would have done had he bought the stock of the strong firm at the beginning of the study and sold it at the end of the study. The capital gain of the long-term investor is then compared with the gains of the speculator and the extra gain through speculation shown. In the last case, that of U. S. Steel, it will be noted that the long-term investment dates of original investment and liquidation coincide with those of the speculator and not with those of the entire study. Use of the dates applicable to the entire study for the long- term investor would have had substantially the same results, however, as market prices at the beginning and liquidation dates were not radically different: 40½ to 40¾, and 80⅜ to 79½ respectively. For the sake of comparison, the same dates were used for both types of investors.

We have ignored the effect of dividends on both types of investor since it appears that the income from dividends would be approximately the same for both the long-term investor and the speculator. The long-term investor would continue to earn dividends when the speculator was short; however, when the speculator was long he would hold more shares than the long-term investor because of plowed back capital gains and therefore would receive more dividends during these periods. Since the effect of taxes would vary greatly depending on the individual's tax bracket, we have ignored the effect of the Federal Income Tax.

CONCLUSIONS

All economic indicators are interrelated and therefore no one indicator holds the key to the future; however, recent history suggests that inventories have been a dominant factor influencing fluctuations in the business cycle. Also, inventories have their own self-generative cycle which is somewhat independent of other factors.

Total manufacturers' inventories tend to lag the business cycle and therefore are not in themselves useful as a forecasting tool; on the other hand, the inventory/sales ratio tends to move in the opposite direction and appears to lead the business cycle or to coincide with it. An upturn of the inventory/sales ratio has frequently signaled a decline in security prices while a downturn of the inventory/sales ratio has often signaled a rise in security prices.

Our case studies indicate that substantial gains would have accrued to the speculator had he used the inventory/sales ratio as a signal during the period of our study. These gains exceed those that would have been experienced by the long-term investor in all cases, ranging from only a slight difference in the steel industry to one almost eight times as great in the agricultural machinery industry. Although we followed the inventory/sales ratio automatically without regard to other information that may have been available to the speculator, we do not recommend this practice. This was done in an attempt to isolate the value of the inventory/sales ratio as an investment tool.

The usefulness of the inventory/sales ratio as a forecasting device is limited by a number of factors, the most significant of which is the application of averages to specific securities and the time lag required in obtaining the necessary data for computations.

Nevertheless, it appears that the proper analysis of the inventory/sales ratio may prove to be a valuable tool to the investor. It is not claimed that this device represents a panacea, for in the final analysis the authors must agree with Kenneth Hanger, a hard-working young private investor, who wrote recently:

> It still is true, isn't it, that when you and I, or others, are interested in a company, we investigate it, compare it, analyze it, check it, think about it, and in general bring all our mental faculties to bear upon it, and then — if and when we invest — we hope.[8]

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1. While correlation studies indicate that stock prices and gross national product move in the same direction, they generally show that stock prices tend to lead the business cycle.

2. The authors are indebted to Professor Douglas N. Thompson of the University of Utah for these six phases.

3. The National Bureau of Economic Research in its study of business indicators also listed manufacturers' inventories as a lag indicator.

4. The inventory/sales ratio is computed by dividing the total dollar value of manufacturers' inventories at the end of the month by total manufacturers' sales during the same month.

5. Actually, the turns in the inventory/sales ratio occurred three months earlier, but as noted previously the turn would not be known until some months later.

6. We attempted to locate stock valuations (such as *Value Line* or *Standard and Poor's Stock Guide*) which would have been available to the speculator at each of our turning points but were unable to do so except for the most recent transactions. Therefore, our initial selections were based upon sales and profit data for the period 1947-1952 as found in *Moody's Industrial Manual.* As pointed out previously, this same information would have been available to the speculator in 1953 when the case studies begin.

7. *Automotive News* reported this 226 percent sales increase for Studebaker-Packard Company for the first six months of 1959 over the first six months of 1958 in the August 17, 1959 issue. Actual units sold were 68,421 for the first half of 1959 compared to 20,974 for a similar period in 1958. Monthly sales increases were also reported in the *Wall Street Journal* at the beginning of each month. All of this information would have been available to the speculator on August 17, 1959, and would seem to indicate a poor time to sell Studebaker-Packard short.

8. Quoted by Nicholas Molodovsky, "Valuation of Common Stocks," *The Analysts Journal,* February, 1959.

I hold every man a debtor to his profession; from which as men of course do seek to receive countenance and profit, so ought they of duty to endeavour themselves by way of amends to be a help and ornament thereunto.

Francis Bacon.

DAVID ADEOYE FAMOROTI

The Promise of Nigeria's Independence

A Nigerian's evaluation of the problems facing his newly independent nation

Nigeria, a former British protectorate in West Africa, with an approximate population of 35 million and an area of over 300,000 square miles (four times the size of the United Kingdom) became independent on October 1, 1960. Through several and prolonged constitutional conferences in London, Nigerian leaders have assumed responsibility on behalf of the people for working out a federal constitution in place of the former unitary government. The essence of a federal system is the division of governmental power between a central overall government and its constituent parts. This device appears to be exceedingly well adapted to conditions in Nigeria, where different cultures, languages, religions and traditions insist on maintaining their own identities, and where each regional division wishes, in such a vast country, to insure for itself a strong element of local autonomy.

Local self-government, through the old Native Administrative and Provincial units, had existed in Nigeria when it was being governed by the British. This experience showed that delegated power in local administration had for a long time undermined the initiative and progress of the more virile local units which had to sacrifice their greater aptitude and capacity for progress in order to keep in line with the crawling ones.

But there is an inherent danger in the Nigerian federal system, compared with the type of federal system found in the United States. The Nigerian political parties have been, by and large, organized on tribal bases, and no one of the three main parties can claim nation-wide coverage. In the United States, the two major political parties soar above the state level, and claim followers from all over the nation: This makes the composition of

each party heterogeneous in the sense of its membership from all the states and salutary to the good combination of political ideals. By its composition, a similar political party in Nigeria has a circumscribed area of acceptance, and hence of political activity. The result is that the Action Group Party in the Western Region, which draws its followers from the more educated Westerners, produces the most progressive regional government. The backward North with the Northern People's Congress, whose membership is primarily based on adherence to Islamic doctrine, has the largest following numerically; yet it is composed of a mixed bag of Moslem die-hards and a handful of secondary school graduates. The National Council of Nigeria and the Cameroons, led by Dr. Nramid Azikwe, a United States trained journalist and economist, is almost exclusively lauded by the Easterners, together with a few Yoruba Westerners whom the predominantly Yoruba Westerners would describe as the "lost sheep of Israel."

It is reasonable to assume that, political parties being constituted as they are in Nigeria, being called upon to work together at the federal level for the commonweal can cause very embarrassing situations. People with different levels of education, standards of living, ideals and ambitions, are very difficult to bring together, especially under the camouflage of a federation for a common goal. The complexity of the problem of the heterogeneity of tribal ideals and cultures has been responsible for the wasteful, misdirected public programs and public expenditure under the old masters. For over a hundred years the old masters vigorously attempted to make incompatibles work together, and now at last have left us to govern ourselves, with perhaps more acute problems of government consolidation than the necessity of moving forward to expand our economy. Right now, at the beginning of our independence and national sovereignty, we can claim to have inherited both bad and good from the British colonial administration: the bad part in the sense of traditional rigidity in economic and fiscal policies, and the good part in what may prove a heritage of the British ideals of parliamentary democracy, law and order.

In order to arrive at my objective, I shall subdivide the rest of this paper into five parts:

- A cursory examination of the country's diversity, of tribal and ethnic groupings and the role which each group plays in the national economy.
- A brief outline of the British administration, in terms of methods and sources of revenue, its allocation, and politico-economic ramifications.
- The new outlook in revenue sources, government spending, and economic policy as the Nigerians take over full responsibility of their nation's destiny.
- The transitional period from dependency to independence, and proposals for better and more full utilization of national resources in order to achieve maximum national welfare.
- General observations in economic policy and political design with respect to development.

LAND OF DIVERSITY

Nigeria claims to be the largest (in population) country in Africa. The population is estimated to be over 35 million, with fewer than 25,000 white men who are scattered over the country in various capacities as businessmen, expatriate civil servants, missionaries and foreign agents. In area, Nigeria is about 300,000 square miles, with a population density of 55 percent in the Moslem North, 25 percent in the East, 15 percent in the West, and roughly 5 percent in the Federal Territory of Lagos. The country is predominantly agricultural.

The North produces peanuts, shea butter, and ginger, and has several mineral deposits, such as tin and manganese, on the plateau. Livestock farming is another source of income for the North, which supplies cows for the whole country. There are opportunities for fishing on the Benue and Niger rivers, but the development of this resource is alarmingly neglected.

Eastern Nigeria has poor soil for farm products. Its main source of economy consists of the cultivation of cassava, rice and dyeing products, all of these being consumed locally except the last one. The Eastern region is reputed for its wood carving and ornamental and decorative designs, its metal works, and its large fishing undertakings from the big rivers which are abundant in the East. There are coal deposits in Enugu (the administrative capital of the region), and some cement resources at Nkalagu. The contribution of coal, as a source of power, to the East's income has considerably declined, and the gradual laying off of coal miners has increased the unemployment level in the East. The East has better advantages than any other region in the tapping of its numerous swift-running rivers for power; the Easterners are therefore, more than other Nigerians, accustomed to aquatic jobs.

The Western region's source of economy is in vegetable products. By virtue of its situation off the Atlantic coast, it is rich in various types of economically valuable trees—mahogany, iroko, sisal hemp, palm and cocoa. Recently some iron ore and gold deposits have been found around Abeokuta. The Westerners, predominantly Yorubas, are vigorous traders, and they are scattered over the whole country for purposes of retail trading. It is estimated that the Western region has the largest volume of retail trade in the country.

BRITISH ADMINISTRATION

It was in 1914 that the country known as Nigeria (Niger Area) came into existence. That year is popularly known in our history as the Amalgamation year. The British took over, with all the possible and obvious difficulties, in administering the country. Under British rule, each region retained its identity for purposes of culture and tradition only. Financial and economic administration was vested in the Governor-in-Council which had the old-time Legislative Council[1] to advise it as to centrally collected revenue, levying of taxes, and methods of their allocation. Perhaps the only intelligible method of raising revenue known to a mass of people, tax-illiterate and unaccustomed to this new "imposed" centralized government, was the poll tax, which had to be adapted to the basic local tributes paid to local chiefs

and tribal heads. Although modern methods of revenue raising evolved with time, then, the administration being complex and involved, all that was raised was consumed by the different layers of provincial units. The British later devised a means of obtaining constant and regular financial aid under what was generally known as the Colonial Development and Welfare Acts. Recent acts of 1945, 1950, 1955 and 1959 made available for all the British colonies and protectorates £315 million sterling for the period 1946-64. But one can imagine what a lean share was Nigeria's. Meanwhile, personal income tax, import duties, excise taxes, fees, fines and loans made substantial contribution to the revenue. But the history of personal income tax in Nigeria is not a satisfactory one. It was resisted vigorously because most of the proceeds actually came from the West and East while less than 2 percent came from the North, which is by far the largest region in both population and area and whose inhabitants are spread over pretty nomadic jobs of tending cattle, their sources of income not lending themselves to assessment. This was one of the beginnings of separation of administration. The problem of central allocation of revenues based principally on needs and not derivation intensified the rise of tribalism under the guise of nationalism.

The result of this confused situation was that one region or another had to stagnate in terms of needs for development, in order to wait for the crawling North. Public expenditure was lean in all respects and sometimes ill-directed, going into the pockets of the British administrators. At the conclusion of direct British rule in Nigeria, the whole country could boast of less than 900 miles of railroad, about 1,500 miles of highway (certainly not acceptable under American standards), 50 hospitals and maternity homes, fewer than one million children in schools, a university college with only 1,200 students, and three institutes of science and technology. There had been no single effort in the direction of slum clearance, nor any form of industrialization. Foreign investment was insignificant, and where it did exist, was subject to serving British middlemen. Most of the public expenditure was vested in what was known as the Public Works Department (manned by expatriates!), which earned the ignoble appellation of "Public Waste Department." In the whole country there were fewer than 2,000 telephone installations, and in many cases, consumption was by the rich. Pipeborne water was a luxury, and electrification was the privilege of those areas usually inhabited by white expatriate officers —Lagos, Kaduna, Enugu, and Ibadan. In fact Ibadan, the biggest native city in Africa, with a population of over 500,000, had the first public street lights—in 1942. In the midst of this gloom and the dirty smoky hovels of the natives the British administrative officials revelled in luxurious homes. "For obvious reasons, British rule has been resented by the Nigerian nationalists and agitation for its termination has been vigorous and sustained. However it is my opinion that on balance, British may be justly proud of its record in Nigeria."[2] The British administration was a hotchpotch of spoonfeeding, and it failed to meet the entire nation's objectives by repress-

ing the people's political articulation and being administratively burdensome to the poor natives.

A NEW ERA

Now the die is cast. We are called upon to assume the responsibility of government of our country. It was one thing to criticize the British administration and its economic and financial policies in the past, but it is quite a different thing to redeem our loss when the mantle of government is cast upon us. Politically speaking, it may be unjustifiable for one nation to impose herself on another, but it is debatable too whether a nation, like an individual, may be better cared for through an imposed foreign government rather than through its own national government when that national government is fraught with tribal disintegration and is blind with respect to what constitutes the commonweal. To what extent this is true on the Nigerian scene will depend on the direction of our overall national economic development. Let us look at the directions in which the national government is fulfilling its obligations to the Nigerian citizens.

Sources of Revenue

The actual federal system of government began in 1954, when each of the regional governments obtained autonomy. The consequence was that the regional and federal governments had to raise revenue from the same base, so far as personal income tax is concerned. The federal government, however, retained the hegemony in collecting revenues accruing from all foreign or external trade—export and import duties and harbor levies. By 1956, the burden of double personal income tax caused some local risings which compelled the regional governments to seek legislation limiting the federal government to levy personal income tax on residents in the federal territories alone. The last Constitutional Conference in London in September, 1959 resolved the problem of tax jurisdiction. The federal government cannot tax income in any region other than Lagos, the Federal Territory; but each region is now obliged to return a certain percentage of its collected personal income tax proceeds to the federal treasury. It is not yet possible to assess how effectively this will work, as it was just put into operation in the 1959-60 assessment. The National Economic Planning Committee is at present working on a more permanent coordinating device. At present, then, personal income tax is levied by the regional governments within their jurisdiction.

Interregional trade exchange is tax-exempt, but there has arisen a keen competition between the regions with respect to rates of personal income tax, and this has led to the migration of a large number of regional residents into the Federal Territory, which at present levies the lowest rate. This rate is, however, more than compensated for by the large revenue accruing from other sources of tax which the regions cannot match. The Western region it is alleged, charges the highest rate at present. Tax money from trees of economic value, like that from timber felling, is retained by the regional governments. The local governments derive their revenue mainly from market levies on retailers of petty merchandise, vehicle licenses, local court

fines, and property tax levied by municipalities or local counties where there is reasonable permanent property, and from regional government grants. The Northern regional government does not encourage local property tax.

Perhaps the tax which provides the greatest amount of revenue is the old poll tax. It is being extensively used by the local governments. Although the poll tax may not be a modern method of raising revenue, this method is still retained by most African states. In a predominantly peasant economy where about 25 percent of the people engage in paid jobs whose incomes can be reasonably assessed, the only way to spread the cost of a democratic government to reach everyone according to his ability to pay seems to be the poll tax. Every taxable citizen pays this tax and to those who have direct incomes which are subject to direct personal income tax it constitutes double compliance. The rate ranges from a minimum of $10 per person to about 1½ percent (flat) on assessable personal income. For very many years back, the payment of poll tax was one of the qualifications for voting power of an individual. This is still the case in the Northern region, where women have not yet gained political franchise.

In 1958, the Western regional government started a public lottery, which has brought large sums of money into the regional government coffers. The proceeds are, by and large, being devoted to slum clearance, rural electrification, pipe-borne water supplies and development of local agriculture. Much success has attended some of these endeavors; the only failing was perhaps with the Pioneer Oil scheme (which was engaged in getting oil from living palm trees) when the region suffered considerable loss of money because of the indiscriminate felling of the trees by local citizens for purposes of tapping the wine. It should be noted here that the Western regional government was the first to initiate slum clearance and urbanization programs. This may perhaps explain its highest rate of taxation on some bases.

Expenditure

Expenditure programs vary from region to region. The West, which levies a general capitation and education tax of between $1.50 and $7.00 per capita, by 1958 standards spends over 45 per cent of its revenue on education. The West has the most extensive educational scheme both at the elementary and secondary levels. Convinced that the key to progress in all fields lies in education and health, the Western regional government was the first in Africa to introduce free universal primary education and inaugurate free medical treatment for those under 18. Since 1955, when free primary education was launched and parallel measures were taken to improve secondary and technical education, the school population has more than tripled to over 1,200,000. Futhermore, over three-fifths of the Nigerian students taking advanced courses overseas come from the West. In the field of social services, housing, communications, transportation, power and water, the Western regional government leads the federal government itself. The West was the first to inaugurate cheap housing projects under the Western Region Housing Corporation. A government television corporation

was begun (the first in Africa) in early 1959.

Compared with the West regional government's expenditure programs, the federal government's expenditure on education is disappointing. The only university that existed up to 1959[3] for the 35 million people of Nigeria has an enrollment of only about 1,200 students. There is certainly no limitation to land acquisition, but the limitation to expansion is the human weakness, political lethargy, and unbalanced constitutional setup of the federal government. On defense and internal security, the direction of appropriations is appalling. Nigeria, as it assumes responsibility for its own defense, can boast of a force of approximately 300 officers, and 7,000 other men who cannot even operate a machine gun. The police force for the whole country is equal to less than 5 percent of the city police force of New York City alone (which numbers about 25,000).

Expanding the Economy

At the request of the British and Nigerian governments, a team of economists came to Nigeria in 1953 to assess the resources available for future development, to study the possibilities for expanding the country's economy and to suggest the best ways of coordinating the efforts of different departments. Among other things, the report of this mission discussed Nigeria's financial resources and concluded that the annual rate by which Nigeria's income had risen per head during the postwar period was a figure below two percent, while the capital value represented by public buildings, unpaved roads, housing, new locomotives, factories, plants, vehicles and overseas investment approximated 10 percent of the gross national product. The mission advised an immediate step to raise the country's national income by an average of three percent between 1953 and 1959. It reported that Nigeria's expenditure rate was well within the limits of its financial resources, but it felt that such modesty was detrimental to the expanding population and the inescapable necessity of increasing future government expenditures. Education, telecommunications, health services and slum clearance were pointed out as particularly needy areas.[4] Revenue, the economists said, must be raised substantially, and a review of the tax system therefore seemed necessary. For the first time the leaders of Nigeria realized the importance of making an active effort to improve communications in their country.

The mission's visit was responsible for the federal government's move to borrow £10 million sterling from the World Bank in 1958. Part of this loan has been used for the extension of railways in the North and part has been directed to a slum clearance scheme in Lagos, to extension of medical and health facilities and to the reclaiming of more land area from the lagoons.

RESOURCES AND WELFARE

Thus far we have cast a general look at the increasing responsibilities of our national sovereignty; we have seen the magnitude of our natural resources yet awaiting development; we have seen the cause of past failures, and we are now faced with the challenge of meeting our commitments. I shall now consider the ways and means

GROWTH OF NATIONAL INCOME IN NIGERIA

Gross Domestic Product	Fiscal 1950 Value in £ million	Fiscal 1956 Value in £ million
I. *Agriculture, etc.*		
Field crops	282.8	333.5
Tree crops	62.3	76.2
Forest products	25.7	26.7
Livestock	30.5	57.2
Fishing	6.3	7.4
Agriculture total:	407.6	501.0
II. *Minerals*	7.8	9.7
III. *Industry*		
Craft industries	8.6	11.4
Manufactures	0.8	3.1
Industry total:	9.4	14.5
IV. *Construction and Civil Engineering*	41.6	89.4
V. *Public Utilities*	1.6	4.0
VI. *Services*		
Transportation & distribution	88.0	119.1
Banks, insurance and other professions	0.9	2.4
Missions	2.2	5.7
Domestic services	2.9	4.9
Miscellaneous	6.4	7.0
Services total:	100.4	139.1
VII. *Ownership of Houses*	5.1	6.3
VIII. *Government*		
Export duties, royalties, etc.	5.7	14.6
Others	13.5	30.3
Government total:	19.2	44.9
IX. *Intra-household services*	4.0	4.0
Total gross domestic product	596.7	812.9
Earnings of assets abroad	3.0	6.9
Less interest & dividends due to persons abroad	−6.3	−7.5
Total National Income	593.4	812.3

SOURCE: *Economic Survey of Nigeria* published by the National Economic Council, Lagos, 1959, pp. 15-17, 110.

Note: The purpose of this table is to present some idea of the nation's growth in output. The writer of this article does not assume responsibility for the accuracy of the methods employed in calculating the national income for these periods. The report of a new survey undertaken in 1959 is being awaited.

by which this challenge could be adequately met.

Any nation must realize that possession of potential natural resources is meaningless without the rational and wise application of these resources, be they human or natural. "Fashion is not only new clothes, it's the way you wear the ones you have." On the revenue side, Nigerian citizens are too poor, compared to Western standards, to bear any sudden increase in taxation. Since agriculture is the basis of our national economy, the capacity to bear this burden can be enlarged through a liberal government policy on agricultural industrialization. But the present national government has some weakness here. It has done very little to set up basic industries. Of the money allocated for 1955-60 under the Federal Economic Program, only 1½ percent was allocated to basic industry. The only secondary industry to which it can even lay a claim is the Nkalagu cement factory. Yet there are strong reasons for the government of a developing country like Nigeria to start primary and secondary industries:

- Establishing such industries would demonstrate the possibilities to private enterprise, which might otherwise be afraid of taking risks.
- Many of these industries would assist in the development of other industries or promoting the health of the economy as a whole.
- If government industries are successful, they could increase public revenue; or their value might be strategic.

It was for the first reason that the government of Japan pioneered industrialization in the last century. The second and third reasons lie behind the French government's development of petroleum in the Sahara and Gabon and the manufacture of fertilizers by the government of India. Industries may also be set up to diversify the economy, thereby providing a corrective to the fluctuations in the world price of primary products.

Another weakness of the present industrialization policy is that the government has shown poor appreciation of the measures appropriate for encouraging the growth of industries. Current policy is to grant generous refunds of customs duties paid on imported materials which have been used in the making of exported goods. But it is questionable whether incomes generated by the new industries compare favorably with refunds, reductions and drawbacks of import duty paid out by the federal government.

Other revenue and income generating factors in our economy lie in the intensified development of our natural resources. While the price of vegetable products, on which we and other underdeveloped countries rely in international trade, has been threatened by the introduction of substitutes for such products as cotton, rubber, and peanut oil, the economic position of a number of key minerals like bauxite (found in Eastern Nigeria), iron and petroleum (found in the Delta areas), has improved considerably. The significant change in the demand for and supply of certain minerals in international markets offers great possibilities for this country.

With regard to expenditure programs, it has been contended that the federal government has emphasized

expenditures on programs that are not necessarily urgent. Adequate and efficient public utilities such as water supply, harbors, postal system and telegraphs, electricity and railroads are basic to the development of any country. The federal government at present operates the first three, while the last two are operated by corporations. But the federal government's methods are the least desirable in terms of efficiency and maximum benefits to the public. Under the federal Five Year Economic Plan 1955-60, the government's allocation of more than 75 percent of its monies to public utilities as against 1½ percent to basic industry, and 2½ percent to education, is a clear indication of an ill-planned development program. Expenditures on public utilities are self-liquidating and do very little to reduce inequalities; yet, while provision of these should not be neglected, undue emphasis has been placed on the provision. Public utilities are not an end in themselves. Their object is to make agriculture and industy more productive. Based on his experience in Ghana and elsewhere, Professor Arthur Lewis, one-time economic advisor to the Ghana government, in his writings, warned against exaggerated hopes of thinking that because government has provided lavish public utilities, private enterprise will necessarily move in to set up secondary industries in the scale needed for a developing economy. Very often such hopes are disappointed, and the government is forced to play the dual role of setting up industries as well as providing public utilities. One way in which a government can spend its money wisely is to assist in intensifying the development of certain industries that would lead to greater increases in the output of food and other income-generating crops. So far, for example, the widespread adoption of fertilizers by farmers, especially those far away from ports, has been severely limited by the prohibitive cost of imported fertilizers.

The importance of investment in education cannot be overstated. The rate of expansion of educational programs in the West alone surpasses that in all the other regions and the Federal Territory put together. This is an unbalanced situation. It is unreasonable to educate one part of a federation and leave the others illiterate. In a smooth and democratic federation, the parts and the whole have essential bearing upon each other. A more generous attitude with respect to educational grants-in-aid is urgently called for. Expansion of the old university college and possibly a program to extend its coverage of the country is an urgent need; this in turn implies the need for a more elaborate expansion of educational facilities, both on the primary and secondary school levels. The first and most strategic step in an attack on poverty is to see that it is no longer self-perpetuating. Poverty is self-perpetuating because the poorest communities are poorest in the services which would eliminate it. To eliminate poverty efficiently we should invest more than proportionately in the children of the poor community, for "It is there that high quality schools, strong health services, special provision for nutrition and recreation are most needed to compensate for the very low investment which families are able to make in their own offspring."[5]

External Factors in Fiscal Policy

As I have indicated previously, Nigeria is trying to live within its means. This goal is a modest one. The first public borrowing by the Nigerian federal government was £10 million sterling in 1958 from the World Bank. By what he called the "stability budget," the Federal Minister of Finance in his budget speech of 1960 claimed that in endeavoring "to trim the inessentials and provide for our essential development programs, we are like an individual balancing our resources against our commitments. . . ."[6] It will appear that the attitude of the present government to public debt springs from ignorance. We cannot save ourselves: a nation, like an individual, cannot rely solely on its own resources. While borrowing may be a questionable economy for an individual (and this is debatable) on the public level, it has a justification in the modern theory of public finance. It is my view that our public borrowings should be intensified, so long as we have the potential resources to meet them. A national debt should be created that is large enough to facilitate our economic programs. We should eliminate poverty by increasing our national income. I am sure that, with a favorable political atmosphere in Nigeria, the free world would not hesitate to grant long-term loans. This is the way many great and powerful nations as we know them today have risen.

The borrowing must be from outside; internal borrowing would merely be a transfer and its effect on national income transitory. A permanent economic development cannot be adequately financed by internal transfers of money which would only aggravate inequalities. While borrowing from outside reduces the extra burden of taxation, it enables a government to pursue an economic program, part of the cost of which, along with corresponding benefits, can be shifted to future generations without unnecessarily burdening the present. An investment on public roads, education, and health and recreational facilities does not therefore benefit the present generation alone but also children yet unborn. The cost of benefits should, then, be spread over those who enjoy and those who will enjoy them.

Our grandparents have struggled for the independence we now enjoy. Many sacrificed their lives for it. We are being called upon to make our own contributions in the forms of increased taxation and of responsible citizenship. The gaining of independence is one thing; the preservation of it is another. Its preservation lies in the securing and maintaining of adequate social and economic standards which will forever eliminate poverty and disease. For a young nation, the cost is going to be tremendous and cannot be expected to be met from current proceeds of taxation. We cannot afford that this heritage should lapse into slavery and foreign domination during the lifetime of our children. Freedom, education, improved living standards, and incorruptible government are the only noble assets which a nation can hand over to its future offspring; at the same time, it is not inequitable to hand over part of the cost.

An important but neglected external factor that at present plagues our

SELECTED EXAMPLES OF NIGERIAN FOREIGN TRADE

	1958		*1959*	
	Value in £ of Imports from	Value in £ of Exports to	Value in £ of Imports from	Value in £ of Exports to
Japan	8,190,028	165,294	7,434,504	917,505
U. K.	28,826,428	33,523,929	34,250,099	40,293,455
U.S.A.	3,938,134	3,744,147	3,268,855	5,989,812

SOURCE: *Nigerian Trade Summary*, published by the Department of Commerce and Industry, Lagos, October, 1959.

national income with respect to fiscal policy is the unbalance in our international trade. It is strange that the last budget speech delivered by the Minister of Finance paid little or no attention to Nigeria's export trade, which is the economic pivot of the whole federation. International trade is a very important aspect of a nation's financial affairs. Our present export trade with Japan in particular requires investigation. An extract from the *Nigerian Trade Summary* of October, 1959 shows the appalling position in bold relief. The position is given in the accompanying statistics.

Nigeria's position in trade with Japan has not significantly improved. The argument advanced in support of this shocking unbalance is that Japanese goods are cheap and come within the reach of low income groups. It is true that gay orchestra men and drummers may be enjoying a professional trade boom with the happy-go-lucky dancers in cheap damask, shoes, hats and cotton apparel, but this almost seems like dancing to the grave, or "fiddling while Rome burns." Independence mean something more serious than this. The Nigerian public will have to pay bitterly for this unbalance if it continues.

Let us take another cursory look at Nigeria's export trade from the years 1954 to 1958:

Period	Value in £ Million Imports	Value in £ Million Exports
1954	114	150
1955	136	132
1956	153	135
1957	152	128
1958	167	136

SOURCE: *Nigerian Trade Summary*, published by the Department of Commerce and Industry, Lagos, October, 1959.

The wind of an unfavorable export trade started to blow over the country in 1955 and has gradually been developing into a bankruptcy gale which is likely to make nonsense of our independence achievements. All this looks gloomy, but it is possible to right the wrongs if we can start immediately to mend "a stitch in time." The situation of our total export trade arose partly from increased expenditure on capital investment—education, health, roads and other social services—this is true; but the argument does not invalidate the necessity for an intensive export drive. Such a drive, together with increased productivity, a domestic savings drive, economic use of our resources and an intensification of our training schemes, particularly with respect to technicians, would rescue the country from an unnecessarily heavy tax burden and possible financial liquidation.

POLITICS AND THE ECONOMY

Within the last decade, many African countries have struggled to replace colonial rule with African rule. This is the goal of all African countries, and one worthy of pursuit. But the rise to self-government in a few African countries has been spearheaded by irresponsible leaders for the satisfaction of their own inordinate ambition. In many cases (the Congo for example), the attainment of this independence has been attended by chaos and has made the economy of those countries quite uncertain and unstable. These uncertainties are not limited to the particular countries involved in chaotic self-government, but have spread a gloomy atmosphere over many more innocent and mature countries. The lack of honest leadership in these few cases has increased the skepticism and lack of confidence of the Western world towards African rule. However, the deeper roots of this skepticism lie in attempts by the old masters to sabotage every effort made by the African leaders for establishing an independent African nation.

Nevertheless, the burden of a responsible and stable government rests principally on the new leaders. They must demonstrate, in spite of the odds against them, a sincere, honest and dedicated desire for the maintenance of a stable government. The extent to which they fail or succeed will, for many years to come, have a bearing upon the economic development of the African nation with respect to the outflow or inflow of foreign capital. Our immediate source of wealth depends on the attitude of foreign investors to our national governments. Here lies the relevent connection between politics and public finance.

I do not for a moment advocate that a self-respecting nation should sell its birthright of self-rule for "a mess of pottage." The flight of capital from Kenya, encouraged by the white minority in reaction to increasing African rule, is a recent example. The amount of money transferred outside Kenya between March and December, 1960 is estimated to be about $28 million. Political uncertainties are blamed for this situation. The present recession there started after the Constitutional Conference in London of March, 1960 that started Kenya on the road to self-government. Money flowed out of Kenya to such places as Britain, India, and Switzerland. Larger sums were withdrawn by white settlers who elected to send their money elsewhere rather than reinvest it in improvements to the country's economy. As a result, funds available for loans have been sharply curtailed. Business credits have been strictly limited. On instructions from their home offices in London, banks in Kenya have imposed heavy restrictions on overdrafts in contrast to the attitude previously permitted to depositors who overdrew their accounts. In short, the economy is being paralyzed. A similar economic slump has occurred in Uganda. Tangayinka, which is politically more stable than Kenya and Uganda, has also shared the same fate.

This kind of skeptical attitude to African leadership is an infection which will spread a wave of both disappointment in human relationships and economic stagnation over the whole of Africa for a short time. Nigeria will not be an exception. But a

word is sufficient for the wise, and to be forewarned is to be forearmed. Within the realm of possible compromise, the emerging African national governments must redeem their promise of a stable and prosperous economy to the citizens at large. Nigeria, as well as other African countries, has a tremendous job, therefore, in demonstrating to prospective foreign investors that their assets will be safe under a responsible and stable government. This will not be an easy job, I guess, because inherent colonial attitude and racial bigotry are difficult to dispel; but, as the old adage goes, the proof of the pudding will certainly be in the eating.

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1. The Legislative Council comprised the Governor's nominees and a few "special" members to serve the interest of the provincial units: They were not selected by popular vote, but by "merits," the scope and definition of which were determined by the provincial expatriate officers.

2. Chief Obafemi Awolowo, Premier, Western Region, quoted in *London Times*, September 22, 1958.

3. Michigan State University, in collaboration with the Eastern Regional Government, opened the new University of Nigeria in the fall of 1960.

4. *Economic Survey of Nigeria*, published by direction of National Economic Council, Lagos, 1959, p. 109.

5. John Kenneth Galbraith, economic advisor to John F. Kennedy, President of the United States, *The Affluent Society*, Boston, 1958.

6. Chief, the Honorable Festus Okotieboh, in Federal Budget Speech, March, 1960.

READING FOR BUSINESS AND PLEASURE

Management

The 21 papers in this collection[1] were presented by their distinguished authors at the Twenty-eighth Annual Harvard Business Conference, marking the fiftieth anniversary of the Harvard Business School. This two-day conference generated a remarkable quantity of material, some of which was worth reprinting in book form.

The contributors are all eminent men of the political, academic, and business world. Richard M. Nixon, Arnold Toynbee, Peter Drucker, Erwin D. Canham, and Abram T. Collier, together with a generous sample of professors from the Harvard Business School faculty, have much to say, and in this book, say it reasonably well.

A lofty theme is a prime requirement for a conference, but not necessarily for a book. The individual papers, ranging widely over many subjects of varying importance, bear only generally on the theme and cannot be expected to provide, no matter how well assembled, a logically developed, tightly argued thesis. A further problem in such an array of contributing authors is the variation in the quality of their writing and in the issues they conceive as being central to their topic. These shortcomings, inherent in books of this genre, can be tolerated as the price of obtaining, in convenient form, a snapshot of the current thinking of each of the speakers.

1. Dan H. Fenn Jr. (ed.), *Management's Mission in a New Society*. New York: McGraw-Hill Book Company, 1959.

Some may feel that in such a smorgasbord a sense of the ordinary prevails—that the authors have spoken before, repeating thoughts they have expressed many times. One becomes wary of intellectuals who exhort from the platform even if this entails only a polite nod of deference to the subject at hand. Program planners seeking experts of great reputation to grace their brochures and appeal to potential participants unwittingly abet this problem. However, the reader who is willing to proceed selectively can sidestep the difficulty, thus discovering some rewarding insights and perspectives.

In spite of careful editing nearly all the writings retain the unmistakable earmarks of speeches and conference paraphernalia, right down to the question-and-answer sections accompanying some of the major papers. The writings undoubtedly reflect the mature judgment and deep reflections of the contributors, yet often fail to be fully persuasive.

The varied nature of the offerings in this book make it better for browsing according to one's interests than for a cover-to-cover reading. Since most of the presentations are short and were intended for a general public audience, they lack the penetrating analysis that longer and more expansive treatments would provide. Nevertheless, most business men will find much rewarding reading in this book.

Dalton E. McFarland
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Development Diplomacy

When the President of the World Bank turns his serious attention to any aspect of economic development, his thoughts deserve careful consideration. As these three essays[1] are based on the William L. Clayton Lectures of 1960 at the Fletcher School of Law and Diplomacy, the reader may expect a great deal; and he will be disappointed. His disappointment may be due in part to what he seeks from Black—concrete answers, some hope, a blueprint for the future, solutions or a solution to the increasing problems of underdeveloped areas. These aspects are treated only incidentally; instead, Black confines himself to exploring, sometimes superficially, what he chooses to call "development diplomacy." He is more concerned with the development of a philosophy of administering economic aid than with an administrative "methodology." His explorations are interesting, provocative, and well worth the reader's perusal even though he may finish wishing that Black had taken the time and the effort to "explore" more systematically and profoundly.

Black's thesis is that the West should establish a separate "diplomacy for development," separate, that is, from the more conventional and historical types of diplomacy. He is not specific in terms of the degree of divorcement nor in just how this should be carried out. He suggests a preference for international organizations but does not suggest that the U. S., for example, abandon all its unilateral policy in this area. For the U. S., one of the implications of Black's suggestion would seem to be removing the economic aid programs from the control of the Department of State. But he does not suggest this. These kinds of omissions make the work something less than complete.

The central argument is roughly in these terms: Development is a problem for many of the nations of the world. Their preoccupation with it, the struggle for their "minds" by both the West and the Communists, recent emancipation of these nations which permits a great deal more self-expression than previously was possible, an awakening of economic desires in these nations—all are factors which make this a problem with international repercussions for today and for decades to come.

This is a real and crucial problem; and whether we like it or not, we must adopt some attitude, some policy, toward it. The only real solution, according to Black, is to live with it constructively over the long period. We should not, as we have in the past, enter the arena on a short-run and competitive basis.

> The issue is this: Are the political interests of the West better served by administering economic aid in an effort to outbid the Russians for public favor in the underdeveloped world? Or are they better served by administering aid with the single-minded purpose of providing something which the underdeveloped countries require for more rapid growth? (p. 46).

Black answers these questions clearly in terms of his development diplomacy although he points out that we may lose the propaganda battles and we may often have to let virtue be its own reward in the short period. Progress, however, in the long period

1. Eugene R. Black, *The Diplomacy of Economic Development.* Cambridge: Harvard University Press, 1960, pp. x, 74 including index and "A Note on the World Bank."

through sacrificing short-period advantages will clearly be in the best interests of the West.

Defining and describing "development diplomacy" is not easy and Black does so only in very general terms. Negatively, it is not conventional diplomacy with aid allocated on a barter basis for friendship, votes in the U. N., or other *quid pro quo;* nor is it aid allocated on a blackmail basis, i.e. those countries most clearly threatening to "go Communist" getting the bulk of the aid. Somehow, it rises above these issues and approaches the problems of development on a long-run, a-ideological basis. Black nowhere discusses, though, the principles to be followed, say by the U. S., in allocating scarce aid resources against almost unlimited desires and needs. This must be regarded as a major shortcoming of his exposition. Some principle *is* required, and the selection of this principle would determine whether or not we were to have the new "development diplomacy" or to continue pragmatically along lines suggested above.

Discussing the role of the development "diplomat" makes more clear what Black has in mind. He is little more than a "technical 'assistor' " and his principal task is to "illuminate choices" for the government to which he is accredited. All governmental activity is seen as a matter of choosing alternatives—at the highest level between such alternatives as "growth," "defense," "national prestige," "self-sufficiency" and at lower levels between "industrial development," "agricultural development," "more highways," "more railroads." In a way, he is more an "educator" than anything else, pointing out in his most skillful manner alternative costs and potential benefits of various general objectives as well as those of specific projects.

This is consistent with Black's analysis of one of the major current problems of these countries, failure to take advantage of existing potential—through poor "project" selection, inadequate "planning," and/or inconsistent "policy." He feels that these countries will be well on their way when they develop the habit of making decisions *after* consideration of alternative costs and benefits.

Black also insists that the development diplomat have

> . . . .the backing of substantial capital; unlike some other branches of the art [diplomacy] it is not possible to succeed in this kind of diplomacy by just talking a good game. Development diplomacy needs capital because it must be a working diplomacy, capable of pointing to visible results . . . . Development diplomacy needs capital because it needs to point to concrete development projects, the tangible proof that it is helping to engineer an escape from poverty. (p. 38).

Quite aside, this strikes me as a very un-diplomatic allusion to conventional diplomacy. The implications of this aspect of his diplomacy are not explored. Black asks his development diplomat primarily to "illuminate choices" rather than to "impose solutions" and, even more, on an a-ideological basis. Now, added to his tasks is "keeper-of-the-purse-strings" for international development aid. There is no quarrel with the notion that international aid will be useful if not essential. Rather, it seems clear to me that giving this a-ideological educator responsibilities for granting or withholding aid substantially changes his role. What criteria does he apply? Many criteria which might be chosen could cloak this fellow in the

garments of the "conventional" diplomat. At least, he might come much closer to the traditional role than Black seems to realize.

There can be no quarrel with the basic proposition. How wise it would have been to have had such a program in Cuba, for example, which could have been continued when other forms of diplomacy were further muddying already troubled waters. We could have continued the program, saying to the Cuban people, "Your poverty is important to us; we want to continue to help you with this problem regardless of these political differences between us." Instead, convential diplomacy led us to withdrawing all aid, small though it was, saying in effect, "Your poverty is important to us only in certain conditions; if you don't meet these conditions, we will do all we can to make your poverty greater." How short-sighted can a nation be?

Black's general proposal deserves a great deal of consideration as one possible approach in our learning to live with our mutual problems with the under-developed areas.

John M. Hunter
Department of Economics

The Future of Warfare: 1882

Are no discoveries possible which should radically alter all the conditions of fighting, and either render war impossible, or give certain victory to those who dare face such destructive machines? It is most improbable. The only two directions in which even dreamers can see a probability of much change are the use of electricity or the use of balloons, and of either the prospect is very slight. It is always a possibility that immense electric force may be concentrated in such a small space, that a machine supported in the air by balloons could be guided at will, and if that were achieved, the conditions of war would, of course, be finally altered. But the more experienced a man of science is, the more he doubts the possibility of making an aerial machine independent of the wind, or of using balloons in war, except as he would use steeples or other high points of observations.

Editorial, "Possible Improvements in Killing," *The Spectator* (London) LV (July 15, 1882), 923, abridged.

Our Contributors
(Continued from p. 6)

grees, and where he was an Instructor in Accounting. He is a Certified Public Accountant in the state of Utah.

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The Writing of Business Letters

A business man is not called upon to present the elegance of a wit, a novelist or a poet. He must express himself accurately, clearly and briefly, but he need not denude his language of beauty and appeal. A good piece of writing, whether it be a novel or a business letter, does three things: it communicates a thought, it conveys a feeling, and it gives the reader some benefit.

We must get out of the vicious system whereby we spend a forenoon verifying the price to be quoted to a customer, while refusing to spend two minutes in reconstructing a clumsy sentence in the letter we write him. To be slovenly and feeble is not only discourteous to the persons we address but bad business, because it leaves the door open for misunderstanding.

The writing of letters, business or personal or professional, is no mean ministry. It deserves the best that can be given it, and when it is rightly done it absorbs the mind wholly.

Excerpted from "Imagination Helps Communication," the Royal Bank of Canada Monthly Letter, September, 1960, by permission of the editor.